Energy

Annual Report
2011-2012

Alberta

Energy

Annual Report 2011-2012

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Government Accountability Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 21 ministries.

The annual report of the Government of Alberta contains ministers' accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

On October 12, 2011, the government announced new ministry structures. The 2011-12 ministry annual reports and financial statements have been prepared based on the October 12, 2011 ministry structure.

This annual report of the Ministry of Energy contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry including the Department of Energy (DOE), the Energy Resources Conservation Board (ERCB), the Alberta Utilities Commission (AUC), the Alberta Petroleum Marketing Commission (APMC) and the Post-Closure Stewardship Fund;**
- **other financial information as required by the *Financial Administration Act* and *Government Accountability Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2012, was prepared under my direction in accordance with the *Government Accountability Act* and the government's accounting policies. All of the government's policy decisions as at June 21, 2012 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

Original signed by the Honourable Ken Hughes

Honourable Ken Hughes
Minister of Energy

Message from the Minister

Alberta Energy is responsible for the stewardship of Alberta's energy and mineral resource systems. This includes the stewardship of one of the largest deposits of heavy oil in the world. Albertans, and all Canadians, derive substantial economic benefits from Alberta's energy and mineral resources.

While continued strong economic growth preserves Alberta's place as a choice jurisdiction in which to live and work, our continued prosperity does face certain challenges, such as balancing the need for energy development while encouraging environmentally and socially sustainable development practices.

To that end, Alberta Energy continued to focus on improving three key attributes of Alberta's energy and mineral systems: maintaining competitiveness; leveraging resources to build a more resilient economy; and, focusing on alternative and innovative methods to source energy, beyond traditional fossil fuels.

These efforts have been met with success. For example, in 2011, petroleum and natural gas tenure rights sales in Alberta exceeded $3 billion. This level of tenure rights sales activity is a record for the province. The oil sands continued to benefit Alberta and all of Canada with an estimated $19 billion spent on capital expenditures.

Alberta Energy also continued to pursue activities related to renewable and clean energy during 2011-2012, with continuation of the Bioenergy Producer Credit Program, an electricity market policy framework supporting inclusion of wind, microgeneration and other forms of alternative and renewable energy initiatives, and investment in carbon capture and storage. We led a number of policies to support enhancing the province's electricity capabilities. These included creating policies to facilitate new transmission, monitor wholesale markets, and review customer choice options.

We continued to collaborate with other provincial ministries on a number of initiatives including the Regulatory Enhancement Project (REP). One major focus of this project is establishing a single regulator with unified responsibility for regulatory delivery. REP will improve the coordination of resource policy and streamline regulation of energy development in Alberta. It will also support the province's competitiveness, public safety, environmental management, and resource conservation objectives, all while respecting the rights of landowners.

Interprovincial collaborative activities, such as the New West Partnership Trade Agreement (NWPTA) Energy Memorandum of Understanding, saw continued collaboration between Alberta, British Columbia, and Saskatchewan to strengthen and expand the region's energy sector.

Alberta Energy is working with British Columbia and Saskatchewan, through the NWPTA, to address energy issues and access Asian markets. Alberta Energy has also established the International Energy Policy Branch to support international market development.

Alberta Energy hosted the Federal/Provincial/Territorial Energy Mines and Ministers' Conference in 2011. Attendees concluded the conference by agreeing to work towards establishment of a pan-Canadian energy strategy.

The *Alberta Provincial Energy Strategy* envisions a province that aspires to be a global energy leader, recognized as a responsible world-class energy supplier, an energy technology champion, a sophisticated energy consumer, and a solid global environmental citizen. The development and implementation of key initiatives will be critical to the long-term success of Alberta and Canada.

Original signed by the Honourable Ken Hughes

Honourable Ken Hughes
Minister of Energy

Management's Responsibility for Reporting

The Ministry of Energy includes:

- Alberta Department of Energy (DoE/Department)
- Energy Resources Conservation Board (ERCB)
- Alberta Utilities Commission (AUC)
- Alberta Petroleum Marketing Commission (APMC)
- Post-closure Stewardship Fund

The executives of the individual entities within the ministry have the primary responsibility and accountability for the respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the Minister of Energy. Under the direction of the minister, we oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards. The performance measures are prepared in accordance with the following criteria:

- Reliability - information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability - the performance measure methodologies and results are presented clearly.
- Comparability - the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness - goals, performance measures and related targets match those included in the Ministry's Budget 2011.

As senior executives, in addition to program responsibilities, we are responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits, and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council, the President of Treasury Board and Minister of Finance and the Minister of Energy of information needed to fulfill their responsibilities; and

- facilitate preparation of ministry business plans and annual reports required under the *Government Accountability Act*.

In fulfilling our responsibilities for the ministry, we have relied, as necessary, on the executives of the individual entities within the ministry.

Jim Ellis
Deputy Minister,
Department of Energy

Dan McFadyen
Chairman, Energy Resources
Conservation Board

Willie Grieve
Chairman, Alberta
Utilities Commission

Ministry Overview

The Alberta Crown owns approximately 81 per cent of Alberta's minerals – including oil, natural gas, oil sands and coal and other mineral resources. The remaining 19 per cent are freehold mineral rights owned by the federal government on behalf of First Nations or in National Parks, and by individuals and companies.

The Ministry of Energy manages Alberta's energy resources for the benefit of Albertans, helping ensure they are developed in environmentally responsible ways that bring value to Albertans.

The ministry consists of the Department of Energy (DoE), the Energy Resources Conservation Board (ERCB) and the Alberta Utilities Commission (AUC). The Minister of Energy is also accountable for the Alberta Petroleum Marketing Commission, which is fully integrated operationally within the DoE. Each plays important roles in overseeing the orderly development of Alberta's energy resources.

DoE	▪ Is the steward of Alberta's energy system on behalf of all Albertans. ▪ Develops policy for and manages development of Alberta's non-renewable resources (including natural gas, conventional oil, oil sands, coal, and petrochemicals) and renewable energy. ▪ Grants industry the right to explore for and develop Alberta's energy and mineral resources. ▪ Establishes, administers and monitors the effectiveness of Alberta's fiscal and royalty systems regarding Crown minerals. ▪ Collects revenues from the development of Alberta's energy and mineral resources on behalf of Albertans. ▪ Promotes energy efficiency and conservation by Albertans and industry. ▪ Encourages investment in Alberta's energy industry to create jobs and economic prosperity for Albertans. ▪ Establishes the framework for responsible industry-led investment in electricity infrastructure and markets for the reliable delivery of electricity to all consumers.

ERCB	▪ Regulates the safe, responsible and efficient development of Alberta's energy resources: oil, natural gas, oil sands and coal. ▪ Independently makes decisions regarding resource development in accordance with applicable legislation and within the framework of Alberta's overall energy policy. ▪ Establishes and applies technical standards for the safe and reliable operation of energy facilities in the province. ▪ Ensures that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest.

AUC	▪ Regulates investor-owned, and some municipally-owned, electric, natural gas and water utilities to ensure Albertans receive safe and reliable utility service at reasonable rates. ▪ Independently makes decisions on the siting of electric power plants, electric transmission facilities and natural gas transmission pipelines. ▪ Makes rules relating to the operation of the retail natural gas and electricity markets and adjudicates on market and operational rule contraventions brought to it by the Market Surveillance Administrator. ▪ Ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible and in the public interest.

The Energy Story 2011-2012

Alberta is fortunate to contain a vast supply of energy and mineral resources, including one of the largest deposits of heavy oil in the world. Provincial and federal economies derive considerable benefits from these resources. Abundant job opportunities and strong economic growth keep Alberta among the best places to live and invest. Resource royalties help to provide Albertans with high quality infrastructure and social services.

Alberta Energy is responsible for ensuring that resources are developed for the benefit of the people of Alberta. The ministry aims to achieve prosperity in concert with environmentally and socially sustainable development practices, providing continued value for future generations.

As stewards of energy and mineral resource systems in Alberta, it is the government's responsibility to optimize the value of Alberta's energy and mineral resources. Over the course of 2011-2012, there have been several ongoing initiatives that reflect the Government of Alberta's role in the responsible stewardship and development of these resources.

Alberta's prosperity currently depends largely on energy sales to the United States. Limited access to growing international markets makes the province vulnerable to shifting U.S. energy demands and subsequent volatility in prices.

Summary of Selected Initiatives and Accomplishments

Record Sales

Activity in Alberta's oil and gas sector strengthened in 2011-2012. Capping a record year which saw renewed confidence in Alberta's oil patch, Alberta exceeded $3 billion dollars in petroleum and natural gas tenure rights sales for 2011. These record sales were partially the result of drilling incentives introduced by the provincial government to encourage new exploration, development, and production from unconventional sources. This included deep natural gas wells, coalbed methane and shale gas plays, as well as horizontal oil and gas wells.

These incentives, as part of the Energizing Investment Initiative announced in 2011, made Alberta more attractive to investment in the increasingly competitive conventional oil and natural gas arena.

Oil Sands Investment

Capital expenditures in the oil sands continued to be extensive. The Canadian Association of Petroleum Producers estimated that capital expenditures on oil sands projects alone amounted to $19 billion in 2011. This resource continues to benefit both Alberta and the rest of Canada. According to the Canadian Energy Research Institute, the oil sands industry will pay an estimated $766 billion in provincial and federal taxes and provincial royalties over the next 25 years. The total economic impact of the oil sands to the Canadian economy is projected to be $2.1 trillion over the next 25 years – or about $84 billion per year.

Innovative Energy Technologies Program

During 2011-2012, the Innovative Energy Technologies Program (IETP) continued its commitment to establish the province as a world-class centre for responsible energy development. By fiscal year end, the Government of Alberta funded 37 projects through the first five rounds of IETP funding. These projects address a variety of research interests such as advancing production technologies to produce bitumen in reservoirs that are not yet commercial, better understanding of coalbed methane

production, and expansion of new enhanced oil and gas recovery technologies into previously inaccessible or challenging oil and gas deposits.

Alternative and Renewable Energy

In pursuit of the outcome of clean energy production, as identified in the Provincial Energy Strategy, Alberta Energy continued to pursue development of alternative and renewable energy sources with the development of an Alternative and Renewable Energy Policy Framework. This framework helps drive innovation in the energy sector, diversify Alberta's energy resource base and contribute to Alberta's clean energy future, through areas such as improved measurement, design and planning. Additionally, this framework will focus on achieving a 37 megatonne reduction in carbon dioxide emissions or equivalent by 2050 through green energy production, as required by the Alberta Climate Change Strategy.

Alberta is already pursuing renewable and clean energy with its Bioenergy Plan, the development of wind and geothermal energy, waste-to-energy and residue gasification initiatives and investment in carbon capture and storage.

With 893 megawatts of wind capacity, Alberta has the third highest proportional wind capacity in Canada. At maximum output, these units can generate enough electricity to serve more than one million homes. In a typical year, Alberta's wind turbines generate sufficient electricity to meet the needs of about 365,000 average households. Of the 196 new generation projects scheduled for development in Alberta, 33 are based on wind power.

Regulatory Enhancement Project Implementation

Alberta Energy worked with Alberta Environment and Sustainable Resource Development and the Energy Resources Conservation Board to streamline and improve the fundamental structure of Alberta's regulatory system through greater coordination and integration of policy initiatives.

The department led a number of stakeholder and First Nations engagement sessions in 2011-2012 to gather input on the proposed approach. In addition, an on-line feedback mechanism was posted on the Regulatory Enhancement Project website to solicit feedback from the general public. Based on input heard and direction from the Government of Alberta, work has been ongoing in drafting legislation to enable a new single regulator, with unified responsibility for policy assurance and regulatory delivery.

Carbon Capture and Storage

Alberta Energy continued to be responsible for the administration of funding and development of policies to support the commercial scale development of carbon capture and storage (CCS) in 2011-2012. This technology is aimed at reducing greenhouse gas emissions from large industrial point sources and represents about 70 per cent of the targeted reductions in the 2008 Climate Change Strategy.

To date, three agreements have been signed that, combined, will lead to 4.1 million tonnes in carbon dioxide reductions annually.

This includes an agreement between the Government of Alberta and Swan Hills Synfuels for a carbon capture and storage project that will capture carbon dioxide from a deep coal gasification process, turning the coal into a synthetic gas (syngas) while underground. The syngas can then be used to generate electricity or be used as a feedstock for other petrochemical industries. Carbon dioxide that is captured during extraction of the syngas will be used for enhanced oil recovery.

Alberta Energy also developed key legislative changes to facilitate commercial scale development of CCS. In addition, the ministry continued to lead the Regulatory Framework Assessment (RFA) process to develop recommendations that will refine and guide legislation and regulation regarding the implementation of CCS in Alberta.

Enhancing Electricity

Electricity is the facilitator of economic development in Alberta, playing an essential role in maintaining the living standards and prosperity of Albertans. To this end, a robust, reliable and efficient electricity transmission system is required. Alberta Energy continued to lead a number of policies to support enhancing the province's electricity capabilities in 2011-2012. This included creating policies to facilitate new transmission, monitoring wholesale markets, and reviewing consumer choice options.

Pan-Canadian Approaches

The Federal/Provincial/Territorial Energy Mines and Ministers' Conference was hosted in Kananaskis in July of 2011. Working groups were established to work together on areas important to energy development in Canada, such as Regulatory Reform, Energy Efficiency, Energy Information and Awareness, New Markets and International Trade, Smart Grid, and Electricity.

Interprovincial collaboration activities serve as important vehicles by which to achieve many of the province's energy objectives. The New West Partnership Trade Agreement (NWPTA) Energy Memorandum of Understanding is a mechanism which allows Alberta, British Columbia and Saskatchewan to collaboratively pursue issues related to energy policy, technology, regulation, infrastructure, communications, development, marketing, conservation, and utilization.

The provincial premiers met in Edmonton on December 13, 2011 to discuss ongoing joint work under the NWPTA. They agreed to undertake a mission to Ottawa in 2012 to engage the federal government on issues including a Canada Energy Strategy, immigration, labour market development, greenhouse gas regulations, the promotion of the political interests of the NWPTA within the Confederation, and promoting western Canada to new international markets.

Alberta Energy is also working to address energy issues and access Asian markets through the NWPTA, and has established the International Energy Policy Branch to support international market development.

Conclusions

Alberta Energy plays an important role as the steward of Alberta's energy and natural resource systems, facilitating the development and use of resources in a sustainable manner for the benefit of all Albertans. The initiatives identified above are only a select few of the actions undertaken by the ministry, with additional items identified in the Ministry of Energy's business plan. The development and successful implementation of these initiatives will be critical to the long-term success of Alberta as a global energy leader.

Energy Highlights

Resource		2011-12	2010-11
Natural Gas and By-Product Royalty	Revenue	$1.30 billion	$1.42 billion
	Percentage of non-renewable resource revenue	11 per cent	14 per cent
	Average Alberta Gas Reference Price (ARP)	$3.28/GJ	$3.57/GJ
	Number of conventional natural gas wells drilled	2,085 (2011)	3,663 (2010)
	Total marketable natural gas production including Coalbed Methane (CBM)	3.9 Tcf (2011)	4.1 Tcf (2010)
	CBM production (excluding comingled gas)	309 Bcf (2011)	261 Bcf (2010)
	Total natural gas deliveries	3.9 Tcf (2011)	3.9 Tcf (2010)
	▪ To the United States	35 per cent	45 per cent
	▪ Within Alberta	42 per cent	29 per cent
	▪ To rest of Canada	23 per cent	26 per cent
Conventional Crude Oil	Revenue	$2.28 billion	$2.24 billion
	Percentage of non-renewable resource revenue	19 per cent	22 per cent
	Average price for West Texas Intermediate (WTI)	US$95.11/bbl	US$83.46/bbl
	Crude oil production	490,000 bbls/d	459,000 bbls/d
	Pentanes and condensate production	119,000 bbls/d (2011)	123,000 bbls/d (2010)
	Crude oil wells drilled	3,115 (2011)	2,259 (2010)
Oil Sands	Revenue	$4.51 billion	$3.72 billion
	Percentage of non-renewable resource revenue	39 per cent	36 per cent
	Bitumen wells drilled[1]	2,171 (2011)	1,552 (2010)
	Oil sands production:		
	▪ total bitumen	1.74 10^6 bbls/d (2011)	1.61 10^6 bbls/d (2010)
	▪ marketable bitumen and Synthetic Crude Oil (SCO)	1.62 10^6 bbls/d (2011)	1.47 10^6 bbls/d (2010)
Total Crude and Equivalent	Revenue	$6.79 billion	$5.96 billion
	Production (conventional, marketable bitumen and SCO, pentanes and condensates)	2.23 10^6 bbls/d (2011)	2.05 10^6 bbls/d (2010)
	Total crude oil deliveries	2.24 10^6 bbls/d (2011)	2.26 10^6 bbls/d (2010)
	▪ To the United States	60 per cent	60 per cent
	▪ Within Alberta	22 per cent	20 per cent
	▪ To rest of Canada	16 per cent	16 per cent
	▪ Offshore	2 per cent	4 per cent

Resource		2011-12	2010-11
Bonuses From the Sale of Crown Leases	Revenue (bonus, plus application fees, plus first year's rent)	$3.31 billion	$2.64 billion
	Average price per hectare paid at petroleum and natural gas rights sales	$827.80	$668.08
	Petroleum and natural gas hectares sold at auction	3,880,862 hectares	3,840,957 hectares
	Average price per hectare paid for oil sands mineral rights	$253.32	$150.09
	Oil sands hectares sold at auction	309,091 hectares	365,970 hectares
	Bonus (total amount bid on parcels of land) received from public offering of Crown petroleum and natural gas and oil sands rights	$3.29 billion	$2.62 billion
Freehold Mineral Tax	Revenue	$129 million	$127 million
Wells and Licenses	Well Licenses issued	12,120 (2011)	11,236 (2010)
	Industry drilling	9,894 (2011)	9,233 (2010)
Coal	Revenue	$29 million	$31 million
	Established coal reserves (estimate)	33.3 billion tonnes 36.7 billion tons (2011)	33.3 billion tonnes 36.8 billion tons (2010)
	Raw coal production	36.9 million tonnes	38.5 million tonnes
	Total marketable coal deliveries	30.0 million tonnes (2011)	31.8 million tonnes (2010)
	Percentage of total coal deliveries exported out of province	22.4 per cent (2011)	22.6 per cent (2010)
Electricity	Total generation capacity	13,111 MW (2011)	13,071 MW (2010)
	Total generation capacity from renewable sources	2,155 MW (2011)	2,045 MW (2010)
	Total generation capacity from coal	5,632 MW (2011)	5,735 MW (2010)
	Total generation of electricity	70,685 MWh (2011)	70,586 MWh (2010)
	Amount of Alberta's electricity supplied by renewable resources	9.1 per cent (2011)	7.3 per cent (2010)
	Amount of Alberta's electricity supplied by coal	55 per cent (2011)	58 per cent (2010)
Metallic and Industrial Minerals	Metallic and Industrial minerals Royalty Revenues (MINRS)	$492,376	$835,823
	Hectares of mineral permits issued to exploration companies (LAMAS, MIM Permits and New Application Issued)	3,583,642 hectares	1,837,740 hectares

Data Sources: ERCB's ST98-2011: *Alberta's Energy Reserves 2010 and Supply/Demand Outlook 2010-2011* and Alberta Department of Energy.

[1] The methodology for calculating Bitumen wells drilled has been reviewed and revised. The 2009 and 2010 results have been revised, and the 2011 result reflects the new methodology.

RESULTS ANALYSIS

AUDITOR GENERAL *Alberta*

Review Engagement Report

To the Members of the Legislative Assembly

I have reviewed the performance measures identified as "Reviewed by Auditor General" in the *Ministry of Energy's 2011-12 Annual Report*. The reviewed performance measures are the responsibility of the Ministry and are prepared based on the following criteria:

- Reliability - information used in applying performance measure methodologies agrees with underlying source data for the current and prior years' results.
- Understandability - the performance measure methodologies and results are presented clearly.
- Comparability - the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness - goals, performance measures and related targets match those included in the Ministry's Budget 2011.

My review was made in accordance with Canadian generally accepted standards for review engagements and accordingly, consisted primarily of enquiry, analytical procedures and discussion related to information supplied to me by the Ministry.

A review does not constitute an audit and, consequently, I do not express an audit opinion on the performance measures. Further, my review was not designed to assess the relevance and sufficiency of the reviewed performance measures in demonstrating Ministry progress towards the related goals.

Based on my review, nothing has come to my attention that causes me to believe that the "Reviewed by Auditor General" performance measures in the Ministry's 2011-12 Annual Report are not, in all material respects, presented in accordance with the criteria of reliability, understandability, comparability, and completeness as described above.

Original signed by Merwan N. Saher, FCA

Auditor General

June 13, 2012
Edmonton, Alberta

Performance measures reviewed by the Auditor General are noted with an asterisk (*) on the Performance Measures Summary Table

Performance Measures Summary Table

Goals/Performance Measures	Prior Year's Results			Target	Current Actual
1. Assure energy supply and benefits from energy and mineral resource development for Albertans					
1.a Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions*	n/a (2006)	n/a (2007)	n/a (2008)	Alberta within first quartile (2009) 39.73% (Natural Gas) 43.02% (Conventional Oil)	Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions	Alberta within first quartile (2010) 37.37% (Natural Gas) 41.34% (Conventional Oil)
1.b Revenues from oil, oil sands, gas and land sale bonuses are fully collected: Percentage of amounts collected compared to amounts owed	n/a (2006)	n/a (2007)	100% (2008)	100% (2009)	100%	100% (2010)
2. Lead and engage citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources					
2.a Albertans' assessment of their energy knowledge	n/a (2007)	n/a (2008)	70% (2009)	n/a (2010)	71%	63% (2011)
2.b Increased fuel gas efficiency reporting: Percentage of total fuel gas used by industry participants who voluntarily reported fuel gas efficiency information	n/a (2007)	n/a (2008)	68% (2009)	n/a (2010)	72%	72% (2011)
3. Lead and support the development of energy related infrastructure, innovation, markets and regulatory systems					
3.a Transmission Losses (%)	n/a (2007)	3.8% (2008)	3.6% (2009)	3.8% (2010)	3.6%	3.4% (2011)
3.b Power generation: Margin (MW) between Firm Generating Capacity and peak demand*	17% (2007)	20% (2008)	18% (2009)	17% (2010)	Maintain a minimum 7% margin over peak load	12% (2011)

Goals/Performance Measures	Prior Year's Results				Target	Current Actual
3. Lead and support the development of energy related infrastructure, innovation, markets and regulatory systems (continued)						
3.c Regulatory noncompliance (ERCB): Percentage of field inspections finding High Risk regulatory noncompliance*	n/a (2007)	2.1% (2008)	1.7% (2009)	1.7% (2010)	Less than or equal to 3.0%	3.2% (2011)
3.d Timeliness of the needs and facility applications (AUC): Percentage of needs and facility applications determined within 180 days of the application being deemed complete	n/a (2007)	100% (2008)	92% (2009)	100% (2010)	100%	98.7% (2011)

* Indicates Performance Measures that have been reviewed by the Office of the Auditor General.

The performance measures indicated with an asterisk were selected for review by ministry management based on the followed criteria established by government:

- Enduring measures that best represent the goal and mandated initiatives,
- Measures for which new data is available, and
- Measures that have well established methodology.

For more detailed information, see the "Performance Measure Methodologies" section in Appendix A.

Discussion and Analysis of Results

Expense by Function

In accordance with the Government of Alberta accounting principles, Alberta Energy classifies its expenses into four functions. Each of these functions identifies the principle purpose for which Ministry expenditures are incurred.

Expense by Function by Dollars (in thousands)	2011-12 Budget (Estimates)	2011-12 Actual	Comparable 2010-11 Actual
Agriculture, Resource Management and Economic Development	$ 339,507	$ 290,102	$ 252,153
Transportation, Communications and Utilities	$ 38,514	$ 34,553	$ 31,601
Environment	$ 13,000	$ 13,116	$ 13,094
General Government	$ 53,956	$ 57,992	$ 55,605
TOTAL MINISTRY	**$ 444,977**	**$ 395,763**	**$ 352,453**

Overall expenses were $49 million lower than originally budgeted, primarily due to grants deferred to future years for the Carbon Capture and Storage initiative.

Expenses increased by $43 million from the prior year, primarily due to the commencement of the Carbon Capture and Storage program grant disbursements in 2011-12, as well as increased grant funding for the Regulatory Enhancement Program.

Overall, approximately 73 per cent of the ministry's expenditures support the function of Agriculture, Resource Management and Economic Development. A significant amount of actual expenses for 2011-12 relate to energy regulation expenses ($192 million, or 49 per cent).

Financial Highlights

(Cdn $ Millions)	2011-12	2010-11	2009-10	2008-09	2007-08
Natural gas and by-products	1,304	1,416	1,525	5,834	5,199
Conventional crude oil royalties	2,284	2,236	1,848	1,800	1,655
Bonuses from the sale of Crown leases	3,312	2,635	1,165	1,112	1,128
Bitumen	4,513	3,723	3,160	2,973	2,913
Rentals and fees	169	161	158	160	159
Coal	29	31	31	36	14
Drilling Stimulus initiatives	25	(1,774)	(1,119)	-	-
Alberta Royalty tax credit	-	-	-	-	(44)
Total Non-Renewable Resource Revenue	11,636	8,428	6,768	11,915	11,024
Freehold Mineral tax	129	127	124	261	247
Other Revenue*	179	157	188	183	142
Total Revenue	11,944	8,712	7,080	12,359	11,412
Expenses*	396	352	388	395	296
Net Ministry of Energy Revenue	11,548	8,360	6,692	11,964	11,116

* Revenues and expenses are for the Department of Energy, Energy Resources Conservation Board, and Alberta Utilities Commission.

GOAL 1 - Assure energy supply and benefits from energy and mineral resource development for Albertans

Alberta maintains a royalty regime that attracts industry investment, providing jobs, business opportunities, tax revenue, and numerous other benefits to provincial and federal economies. Success is measured by sustaining vibrant industry activity and a competitive fiscal regime that attracts investment to support provincial services and infrastructure. Alberta's competitiveness is achieved through ensuring energy transportation infrastructure is in place, supply costs are minimized, and consumer market demand is sustained.

Adding value to raw resources is a high priority for Alberta. Our world-class petrochemical industry, oil sands and minerals create significant potential for achieving additional benefits by upgrading energy resources into higher value commodities and products.

Investment in future energy development aims to promote clean energy production to protect the environment and public safety while integrating broader considerations of social, economic, resource, environmental and cumulative effects.

Key Achievements

Alberta has targeted a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions. This royalty framework is designed to attract investment, generate revenue from resource development, and to make sure that a strong energy sector is in place to provide royalties, jobs, business opportunities, tax revenue, and numerous other benefits. Confidence in Alberta's investment climate has led to increased investment, including three records being set for the sale of petroleum and natural gas tenure rights in 2011-2012. The records set included the highest annual bonus, at $3.29 billion; the highest bonus on a single sale on June 1, 2011, of $841.6 million; and, the highest annual average price per hectare of $827.80.

Alberta Energy's information technology infrastructure, business systems, security and processes continued to ensure accurate, timely and effective resource revenue assessment and collection for Albertans in 2011-2012. Maintaining effective working relationships with industry was fundamental to the successful completeness and accuracy of filings to establish that all revenues owed for development of Alberta's resources were collected for Albertans. In collaboration with the Department of National Defence, Alberta Energy led the Master Access Agreement negotiations for Canadian Forces Bases in Alberta, arranging fair access to development of resources on land occupied by the bases.

The Government of Alberta's Land-Use Framework (LUF) sets out an approach to manage public and private land and natural resources to achieve Alberta's long-term economic, environmental, and social goals. A key strategy under LUF is the development of seven regional plans across the province to support better land use management and decision making. Alberta Energy contributed policy and technical analysis and research on issues relating to energy and mineral development, conservation and biodiversity, and air and water management frameworks for the Lower Athabasca and South Saskatchewan Regional Plans. Background preparations focused on analysis of potential energy and mineral resources were initiated for the North Saskatchewan Region.

Alberta is committed to supporting and increasing value-added activities and improving investment competitiveness in the energy sector. Alberta Energy continued to assess the challenges and opportunities facing the natural gas and conventional oil sectors, including consultation around increasing demand for Alberta natural gas, exploration of new market opportunities, investigation into reduction of supply costs for natural gas and analysis of new and existing transportation options.

In May 2011, the Alberta Competitiveness Council endorsed three actions identified by the Petrochemicals/Chemicals sector team (co-led by Alberta Energy) as essential to improving the competitiveness of the industry. These actions were:

- Enhance the Incremental Ethane Extraction Program (IEEP), which supported the production of more than 8,000 barrels per day in incremental ethane in 2011-2012. Alberta's petrochemicals industry utilized these volumes to manufacture products and materials used daily by other industries and Albertans. Government expanded the Incremental Ethane Extraction Program, allowing Alberta's petrochemical industry to reduce greenhouse gas emissions and increasing value-added investment in Alberta. The program acts as a catalyst for petrochemical producers to expand their ethane supply from non-traditional sources, such as the utilization of otherwise burned waste-gas from upgraders and refineries;
- Leverage and enhance the Alberta natural gas hub. Alberta Energy partnered with Alberta Treasury Board and Finance for consultation with sector stakeholders, in order to capitalize on current infrastructure with other jurisdictions; and,
- Champion regulatory certainty to improve the extraction and processing of natural gas liquids in Alberta. This resulted in a policy statement being jointly created by four Government of Alberta partner ministries in fall 2011. When finalized, this statement will provide clarity on the province's position on value-added development during federal and provincial regulatory proceedings.

A detailed analysis, based on earlier pilots, was completed in 2011-2012 on the commercial viability of extracting remaining hydrocarbons and heavy minerals from oil sands mining froth treatment tailings. Various options are being examined that could provide appropriate incentives to oil sands lessees in applying this extraction technology. These options are being developed by companies for tailings management. For instance, significant qualities of zircon are found in oil sands tailings, which is attracting the interests of companies seeking to invest in zircon recovery and commercialization using this new technology.

In consultation with oil sands producers, Alberta Energy developed an implementation methodology for the Bitumen Royalty in Kind (BRIK) program. This program provides the Government of Alberta with physical access to bitumen blend when and where it is needed to support strategic initiatives, and includes the processing agreement with the North West Redwater Partnership, which is developing a $5 billion upgrader/refinery in Alberta's Industrial Heartland.

Performance Measure:

1.a Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions.

Target:

Alberta will have a combined royalty and tax rate that is in the top quartile of investment opportunities compared to similar jurisdictions.

Results:

	Year Ending December 31				
	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Actual 2010
Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions	n/a	n/a	n/a	Alberta within first quartile 39.73% (Natural Gas) 43.02% (Conventional Oil)	Alberta within first quartile[1] 37.73% (Natural Gas) 41.34% (Conventional Oil)

Source: Alberta Department of Energy

Note:
[1] First quartile threshold: natural gas, up to 47.52 per cent; conventional oil, up to 48.29 per cent

Discussion of Results

During 2010, the Government of Alberta unveiled a number of initiatives to address the long-term competitiveness of Alberta's natural gas and conventional oil sectors. Conventional oil and natural gas royalty rates were modified to encourage innovation and promote the use of new technologies and the Regulatory Enhancement Project was undertaken to streamline the oil and gas policy and regulatory systems. These changes were deemed necessary to address the new reality of increased supply competition from unconventional resources (e.g. shale gas and tight oil) located near Alberta's traditional export markets in eastern Canada and the United States. With investor confidence restored, and a focus back to Alberta for unconventional oil and liquids rich gas resources, both land sales and drilling activity rebounded significantly from 2009.

In 2010, Alberta remained in the first quartile (top three) of jurisdictions for the combined tax and royalty rates for natural gas and conventional oil compared to similar jurisdictions.

Performance Measure:

1.b Revenues from oil, oil sands, gas and land sale bonuses are fully collected.

Target:

100 per cent of amounts owed are collected.

Results:

	Year Ending December 31				
	Actual 2006	Actual 2007	Actual 2008	Actual 2009	Current Actual 2010
Revenues from oil, oil sands, gas, and land sale bonuses are fully collected: Percentage of amounts collected compared to amounts owed[1]	n/a	n/a	100%	100%	100%

Sources: Alberta Petroleum and Marketing Commission (APMC), Department of Energy

Note:
[1] Excludes disputed amounts

Discussion of Results

One of the Department of Energy's mandates is to collect the Crown's share of the resources on behalf of Albertans. This measure gauges the ability of the department to collect amounts owed through the development of Alberta's resources.

The Department requires all royalties to be calculated and paid in cash, or delivered in kind, by a prescribed due date. Systems and processes are in place to collect and to identify and expeditiously follow up on overdue accounts. For overdue accounts and any related interest and penalties, processes are in place to collect the unpaid amounts.

The results reported in this measure are based on financial obligations over which there are no disputes between the Government of Alberta and entities that owe funds to the Government of Alberta. In case of disputes over funds owed to the Government of Alberta, the disputed amounts are excluded from the results, until all outstanding matters are resolved. Upon resolution, historical results will be reviewed, and, if necessary, retroactively adjusted.

During the year, all amounts have been collected or are in the process of being collected, and no write-offs have been made.

GOAL 2 - Lead and engage citizens, communities, industry and governments to achieve effective stewardship of Alberta's energy resources

Alberta Energy invests in advances for energy efficiency and conservation to help mitigate rising energy costs and environmental impact, while also investing in energy efficiency and conservation to reduce the energy requirements within the province. Initiatives such as Carbon Capture and Storage (CCS) help reduce impact on the environment by reducing carbon dioxide emissions. Working with stakeholders to streamline and rationalize the natural resource regulatory system achieves the significant benefits of a lessened impact on the environment, reduced costs to residents, improved industry competitiveness, and new innovation.

Alberta Energy is committed to investing in research and development to identify energy trends, new energy sources and issues related to the development of energy. Understanding current and future trends allows the province to position itself to take advantage of new markets and improve awareness provincially, federally and globally as to how the province develops and uses energy, the resulting economic benefits, and what measures are taken to ensure the environment is protected for future generations.

Key Achievements

Alberta Energy has recently established the International Energy Policy Branch, which will lead the ministry's efforts in developing and expanding international energy markets. The branch will support the Government of Alberta's efforts aimed at securing additional market access for natural resources, energy products, services and technologies in new markets, particularly Asia. Being successful will require working with industry, government and other stakeholders to develop coordinated approaches to resource development, engaging with Canadian and foreign governments on energy policy issues, and pursuing energy cooperation agreements internationally.

Alberta Energy participated in the Federal/Provincial/Territorial Steering Committee on Energy Efficiency, which was responsible for implementing priority energy efficiency actions approved at the Energy Mines and Ministers' Conference 2011. The committee works collaboratively to increase energy efficiency within each jurisdiction, by sharing information and resources that improve program design and policy frameworks. Alberta's actions are expected to be implemented in 2012 and 2013, through a policy framework being developed under the Premier's mandate to make Alberta the national leader in energy efficiency and sustainability.

One of the outcomes of Alberta Energy's $6.5 million consumer rebate grant agreement with Climate Change Central was the purchase of new hybrid taxis in 2011-2012. Climate Change Central processed applications for 24 hybrid taxis which are expected to result in 2.5 kilotonnes of greenhouse gas emissions reductions and 1 million litres of gasoline saved over the lifetime of the taxis.

Alberta Energy provided expert advice for research undertaken by Alberta Innovates Technology Future. The one-year study was funded by Alberta Environment and Sustainable Resource Development to determine whether the provision of real-time information is sufficient to change the consumption behaviour of residential electricity customers. Customers in the EPCOR and ENMAX service areas participated in the study. The data from this study will help to design methods for consumers to make more informed energy consumption decisions.

The ministry continued to lead a government/industry committee identifying fuel gas efficiencies in upstream oil and gas processing. Fuel gas usage in Alberta is significant, at about one billion cubic feet per day, equivalent to the consumption of about three million homes. In 2011-2012, the Energy Resources Conservation Board (ERCB) undertook a survey of fuel gas users, with response from companies representing 72 per cent of fuel gas use in Alberta. The survey results were published in the *Alberta Fuel Gas Efficiency in the Upstream Gas and Conventional Oil Industry* report released in March 2012. The report provides trends on fuel gas usage and a summary of the successes and challenges in reducing fuel gas use.

CCS is the primary method that Alberta is using to meet its commitments to reduce greenhouse gas emissions. In 2011-2012, the province passed the Carbon Sequestration Tenure Regulation, which allows operators to obtain leases for large-scale storage and specifies what criteria must be included in a monitoring, measurement and verification plan. Throughout 2011-2012, Alberta Energy has been leading an assessment of the regulatory requirements that apply to CCS to determine their adequacy and recommend enhancements to the regulatory system. This undertaking involves more than 100 national and international stakeholders and it will ensure that CCS is conducted in a safe and responsible manner in Alberta. The assessment is on track to be complete by the end of 2012.

In April 2011, the Government of Alberta and Swan Hills Synfuels signed a final funding agreement for a CCS project that will capture carbon dioxide from a coal gasification process. The in-situ coal gasification project will tap into a deep, un-mineable coalbed near Swan Hills and turn the coal into a synthetic gas (syngas) underground. The syngas can then be used to generate electricity or be used as a feedstock for other petrochemical industries. Carbon dioxide that is captured during extraction of the syngas can be sequestered or used for enhanced oil recovery.

A final funding agreement for the Shell Quest Project was signed in June of 2011. The project will capture approximately 1.2 million tonnes of carbon dioxide per year from the Scotford Upgrader and store it underground in a deep saline aquifer northeast of the upgrader site. This is a fully integrated CCS project involving capture, pipeline transportation and storage. The project will help reduce the greenhouse gas footprint of oil sands operations by decreasing the emissions associated with upgrading of bitumen. ERCB regulatory hearings on the project were conducted in March 2012 and operations are expected to commence by 2014-2015. Two other funded projects, Quest and the Alberta Carbon Trunk Line, achieved planned milestones in 2011-2012 and applied for first payments from the CCS funding program.

Following the Government of Alberta's acceptance of the Regulatory Enhancement Task Force's six recommendations in January 2011, an implementation team was established to coordinate action on these recommendations. Action on the first recommendation resulted in a discussion document titled Enhancing Assurance, Developing an Integrated Energy Resource Regulator, being tabled in the Alberta Legislature in May 2011. This discussion document set out a proposed path to create a new single regulator for Alberta's upstream and select midstream oil and gas, oil sands and coal development. During the summer of 2011, the Regulatory Enhancement Project (REP) Implementation Office led a number of stakeholder and First Nations engagement sessions to gather input on the proposed approach. In addition, an on-line feedback mechanism was posted on the REP website to solicit feedback from the general public. Based on input heard and direction from the Government of Alberta, work has been ongoing in drafting legislation to enable the new single regulator.

In addition to work on the single regulator, the other five recommendations have moved forward as well. The Policy Management Office (PMO) has been established and is developing work plans to ensure integration of natural resource policies and a robust interface between policy

developers and the regulator. As well, the PMO has taken responsibility for developing a clear public engagement process, ensuring a common risk assessment and management approach, and adopting a performance measurement framework and public reporting function to communicate the effectiveness of the system.

Finally, work is underway to establish effective mechanisms to ensure that landowner concerns regarding privately negotiated agreements with developers are addressed and enforced.

Performance Measure:

2.a Albertans' assessment of their energy knowledge.

Target:

To increase Albertans' assessment of their knowledge of the energy industry in Alberta from 70 per cent to 71 per cent by 2011-2012.

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Albertans' assessment of their energy knowledge	n/a	n/a	70%	n/a[1]	63%

Source: 2011 Omni Alberta Survey

Note:
[1] This survey is conducted every second year (biennially)

Discussion of Results

Alberta's Provincial Energy Strategy sets a long-term vision for energy development in the province, identifying the need for Albertans to increase their knowledge and awareness about Alberta's energy resources and how these resources contribute to Alberta's economy and prosperity. It is appreciated that substantive improvements for increased energy knowledge among Albertans is a long-term goal and that in the early years, the results may fluctuate. This performance measure tracks Albertans' assessments of their knowledge of energy through a biennial survey. Last actual results from April 2011 indicate that 63 per cent of Albertans rated themselves from knowledgeable to very knowledgeable about the energy industry in Alberta, which was eight percentage points below the target of 71 per cent.

Since the last survey was conducted in April 2011, the department has been laying the foundations to enhance the energy knowledge of Albertans. The following are just a few examples: assisting the development of the Oil Sands Information Portal, launched in 2011; providing project grant funding to fact-based energy literacy providers; being represented on Synergy Alberta's Board of Directors; engaging in cross-ministry initiatives to address gaps in energy information; and, participating in pan-Canadian Energy Information and Awareness dialogues.

There are many factors that can influence how Albertans rate their knowledge of the energy industry, including conflicting stories in news media, ease of access to energy information, or even an individual's personal interest in energy information. As this is a relatively new performance measure with only two years of results, the department will continue to measure how Albertans assess their energy knowledge in order to better understand variances between the biennial results and the actual trend of results going forward.

Performance Measure:
2.b Increased fuel gas efficiency reporting.

Target:
To increase the number of industry participants who voluntarily report fuel gas efficiency information.

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Increased fuel gas efficiency reporting: Percentage of total fuel gas used by industry participants who voluntarily reported fuel gas efficiency information	n/a	n/a[1]	68%	n/a[1]	72%

Source: Energy Resources Conservation Board

Note:
[1] Results are reported biennially

Discussion of Results
This performance measure was introduced in 2009 when the ministry began conducting biennial surveys of the 15 largest fuel gas users, which represented 68 per cent of fuel gas usage in the province. In 2011, the ministry sent surveys to the top 20 fuel gas users; 17 companies responded representing 72 per cent of fuel gas usage in the province.

The upstream oil and gas industry uses natural gas to fuel equipment when producing, gathering, and processing natural gas and conventional crude. Even a moderate reduction in fuel gas consumption could translate in savings of millions of dollars. Improved management of fuel gas efficiency would help address issues of environmental impacts and increase industry competitiveness, as well as extend both the life of the facilities and the oil and gas industry in Alberta. Fuel gas optimization by industry is not a regulatory or legislative requirement. The use of voluntary reporting is a first step to assist industry and government in identifying fuel gas efficiency opportunities. Voluntary reporting of the top fuel gas users' consumption of fuel gas will be a proxy of how successful industry can be in proactively improving efficiencies.

GOAL 3 - Lead and support the development of energy related infrastructure, innovation, markets and regulatory systems

Alberta's electricity system requires a transmission system with enough capacity to meet increasing demand. Natural gas and oil pipelines are needed to access new markets, and infrastructure is needed to support carbon capture and storage. Alberta Energy works with other ministries to encourage development of energy infrastructure and broader social/community infrastructure in support of future economic prosperity.

Reliable and efficient energy markets are vital to the social and economic foundation of Alberta. Through policy and market design for wholesale and retail electricity and natural gas markets, reliable energy supplies and competitive prices for Alberta consumers are assured.

The Government of Alberta has established, in legislation and policy, a regulatory framework intended to ensure that the discovery, development and delivery of Alberta's energy resources and the development of Alberta's utility system take place in a manner that is fair, responsible and in the public interest.

The Energy Resources Conservation Board (ERCB) regulates the discovery, development and delivery of Alberta's energy resources, including oil, natural gas, oil sands, coal, and pipelines. Regulation is needed so non-renewable resources are produced in a safe, responsible, and efficient manner. The ERCB also ensures that development takes place in the public interest, having regard for social, economic and environmental impacts, including resource conservation. The ERCB consistently re-examines its regulatory requirements and improves them wherever needed by engaging its stakeholders. As the development of Alberta's unconventional and newer resources is growing, the ERCB will be proactive in identifying and addressing emerging issues while continuing to deliver effective regulation.

The Alberta Utilities Commission (AUC) regulates the utilities sector, natural gas and electricity markets to protect social, economic and environmental interests of Alberta where competitive market forces do not. The AUC makes timely decisions on regulated utility rates, and electricity and natural gas transmission and distribution facilities - which are needed to attract investment, meet future needs and ensure fair pricing. The AUC supports competitive markets by enabling market rules and reliability standards to be fairly and consistently developed. The AUC adjudicates market contraventions to ensure that business is conducted in a fair, efficient and openly competitive manner. The AUC has rule-making responsibility related to data communications transactions and the delivery of these transactions to market participants to support well-functioning electricity and natural gas markets.

Technology is important to achieve the outcomes of the *Provincial Energy Strategy*. Using new or improved technologies will decrease emissions, help to minimize development costs, and reduce the use of natural gas and water in energy development, while realizing large scale carbon capture, increased recovery, and expansion of Alberta's renewable energy production capacity. This requires partnering and working with stakeholders to support and encourage energy research by industry, government, universities and research organizations.

Sustaining and building organizational capacity is fundamental to ministry effectiveness. To effectively position Energy to respond to current and evolving business requirements, there is focus on having the right resources, people, finances, information, technology, processes, and tools in place.

Key Achievements

Access to reliable electricity is essential, as it is the most common type of energy consumed at the individual level as well as in the commercial, industrial and agricultural sectors. There was a total of 677 megawatts of new electricity generating capacity commissioned in 2011-2012. Alberta relies on market fundamentals and private investment to build new generation. Since 1996, when Alberta transitioned its formerly regulated electricity generation business to an openly competitive system, there has been over 6,600 megawatts of new generation with a value of nearly $12 billion dollars added to the province's generation capacity all at investors' risk. The generation additions in 2011-2012 reflect the continued robust investments in Alberta's electricity market to meet the demand for electricity in one of the most rapidly growing economies in the world.

A robust, reliable and efficient electricity transmission system is required to ensure electricity is delivered to Albertans, and so that generators, including those utilizing renewable energy sources, can get their product to markets. During 2011-2012, the construction of several major transmission projects were underway in order to connect new customers and reinforce the existing system. An independent review of the two north-south transmission lines was completed and resulted in the Government of Alberta accepting the review committee's recommendations and proceeding with implementation. The Transmission Facility Cost Monitoring Committee is reviewing a number of major transmission projects and has submitted two reports with recommendations to the Government of Alberta.

Alberta Energy worked closely with industry, other government departments and the agencies in the market to respond to individual and corporate concerns regarding our competitive electricity markets. The competitive retail market continued to develop during the year, with the arrivals of additional boutique retail companies. These small electricity retailers have been instrumental in increasing the beneficial competitive products that consumers may purchase.

While markets may work efficiently in revealing the value of electricity, the pricing levels can be a concern to consumers. As the price of the default rate, known as the Regulated Rate Option, rose over the winter in 2011-2012, more consumers took the time to review their bills and their purchasing decisions. As a result, the number of consumers who signed a contract increased. This confidence in the retail market reveals that consumers are finding value in customer choice.

Though customer choice is important, high prices for consumers on the default rate were a contributing factor to the appointment of an independent Retail Market Review Committee, established to review the need for a default rate for retail customers, the design of such a rate (if needed) and the manner in which non-energy charges that are paid by customers are determined and approved. The Committee will complete its work in 2012 and make recommendations to the Government of Alberta.

Alberta Energy also worked with Alberta Environment and Sustainable Resource Development to develop a common understanding of the full consumer and economic impacts that could result from the federally proposed Federal Coal-Fired Electricity Emissions Reduction Regulation. The official response included several changes to the proposed regulation that would help mitigate Alberta's key concerns.

New transmission infrastructure must be developed to facilitate Alberta's continued development, prosperity and quality of life. The government has enabled a competitive procurement process that requires the Alberta Electric System Operator (AESO) to obtain AUC approval prior to implementing a competitive bid process for specific transmission infrastructure projects. The AUC began a proceeding to ensure the AESO process fairly selects a provider, and transparently establishes prices and terms of service over the length of the contract.

During 2011-2012, the Innovative Energy Technologies Program (IETP) continued its commitment to establish the province as a world-class centre for responsible energy development. Previously, the program had funded 37 projects through the first five IETP rounds. These projects address a variety of research interests such as advancing production technologies to produce bitumen in reservoirs that are not yet commercial, better understanding of coalbed methane production, and expansion of new enhanced oil and gas recovery technologies into previously inaccessible or challenging oil and gas deposits. In addition, the sixth round of the IETP came open for applications, and by March 31, 2012, successful applicants were notified and the drafting of approvals was initiated. These projects will be announced publicly once all approvals are finalized. As part of facilitating innovation, the Department of Energy met with all active project operators to discuss 2010 performance, and 15 project reports for 2008 were made public.

Funding and leadership of initiatives promotes collaboration for innovation across the energy industry. In 2011-2012, support for collaborative research included:

- participation in the Alberta Research and Innovation Plan development;
- participation on the Technology Informing Policy Committee;
- the completion of the European Union Crude Pathway study;
- continued funding and leadership of initiatives led by Petroleum Technology Alliance Canada;
- continued funding and leadership on the Gas Over Bitumen Technical Committee;
- new funding for initiatives led by Alberta Innovates - Technology Futures (polymer use, heavy oil and tight oil joint industry projects) and Alberta Innovates Energy & Environment Solutions (oil sands tailings roadmap);
- continued participation and funding of Canadian Energy Research Institute;
- ongoing leadership in energy related nanotechnology research through the Centre for Innovation Studies; and,
- continued support for the Oil Sands Energy Dialogue.

The ERCB worked to ensure that energy and utility development in Alberta is regulated in a fair and responsible manner, with an eye to making all decisions in the best possible way for Albertans, by:

- continuing to enhance the regulatory framework for unconventional oil and natural gas to ensure that these resources are developed safely and in the public interest;
- issuing *Bulletin 2011-10*, which addressed the use of C-ring tanks to store fluids other than fresh water or inert solids;
- issuing *Bulletin 2012-02*, which reminded industry that it is obligated to plan safe and effective hydraulic fracturing operations and report any unintentional communication between oil and gas wellbores;
- publishing a comprehensive public information package, entitled Alberta's Unconventional Oil & Natural Gas, to answer common questions Albertans have about the development of our province's unconventional resources; and,
- reviewing and changing Alberta's well-spacing regulatory framework for conventional and unconventional oil and gas reservoirs to enhance conservation of Alberta's hydrocarbon resources, allowing companies to maximize resource recovery in a safe, efficient, and responsible manner that benefits all Albertans.

The ERCB's Alberta Geological Survey worked in conjunction with Alberta Environment and Sustainable Resource Development to produce the Edmonton-Calgary Corridor Groundwater Atlas. This atlas delivers comprehensive results of a mapping project that will help communities in one of Canada's busiest economic corridors make better water management decisions now and into the future.

The ERCB launched an enhanced, toll-free Customer Contact Centre information line to act as a single point of contact for all of Alberta's oil and gas related inquiries. These enhancements came out of the Government of Alberta's Regulatory Alignment Project and were made in collaboration with Alberta Environment and Sustainable Resource Development, Alberta Department of Energy, Alberta Transportation, and Service Alberta. The ERCB call-centre professionals are trained to assist callers on a variety of matters pertaining to oil and gas development in Alberta.

Performance Measure:
3.a Transmission losses (%).

Target:
To show improvement year over year (improvement is indicated by a reduction in numbers).

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Transmission Losses (%)	n/a	3.8%	3.6%	3.8%	3.4%

Source: Alberta Electric System Operator

Discussion of Results
Electricity is a facilitator of economic development in Alberta. A robust, reliable and efficient electricity transmission system is required to ensure electricity can be delivered where and when it is needed. By ensuring development of a robust transmission system, generation developers will know that they will be able to efficiently move their product to market. In turn, they will have confidence to develop new generation ensuring an adequate, reliable supply of electricity to Albertans. Until transmission is improved, potential renewable or low-emission electricity generation in Alberta will remain constrained by location. There are hydroelectric resources in the north, wind and solar in the south, and biomass in the northwest. Optimal use of power from these sources depends on our ability to bring it to where it is needed.

Transmission losses are an indicator of the efficiency of the transmission system. A transmission system with adequate capacity will have lower losses than a system that requires upgrading.

Performance Measure:
3.b Power generation.

Target:
Maintain a minimum seven per cent margin over peak demand.

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Power generation: Margin (MW) between firm generating capacity[1] and peak demand	17%	20%	18%	17%	12%

Sources: Energy Resources Conservation Board, Alberta Electric System Operator and Alberta Department of Energy.

Notes:

Through industry investment, Alberta's net supply margin of electricity will be sufficient to ensure reliable power supply

[1] Firm Generating Capacity excludes:
- wind power, which is not dispatchable on a consistent basis;
- small hydro, which has minimal storage capability for operation during winter, when peak demand occurs;
- 25 per cent of large hydro, to reflect limitations on its output during winter, when peak demand occurs; and
- tie line capacity, which is not dispatchable on a consistent basis.

Discussion of Results

Alberta's economic prosperity and high standard of living relies on access to reliable and plentiful electricity. The Government of Alberta has created a framework that facilitates a competitive wholesale power market. This framework has resulted, over the long term, in electricity supply keeping pace with Alberta's growing demand for power.

For this measure, the seven per cent margin is a specific identifiable reliability requirement set by the Western Electricity Coordinating Council (WECC), the regional entity responsible for coordinating electric system reliability in the Western Interconnection that extends from Canada to Mexico.

Firm electricity generating capacity was calculated at 11,912 megawatts (MW) for 2011. This was a 0.4 per cent drop from the 2010 level. The peak demand in the winter period of the climatic year (October 1, 2011 to March 31, 2012) was an all-time high 10,609 MW. This was 383 MW (or 3.7 per cent) higher than in 2010 and 373 MW (or 3.6 per cent) higher than the previous all-time high record of 10,236 MW, set in 2009.

In 2011, the margin between the firm electricity generating capacity and peak demand decreased to 12 per cent from the 2010 level of 17 per cent. The decrease in reserve margin was in most part the result of external non-market influences as well as a higher than expected increase in peak demand.

The major factor behind the drop in reserve margin was the force majeure closure of coal-fired Sundance units 1 and 2. These units have a combined generation capacity of 560 MW representing nearly five per cent of the total firm generation capacity and were made unavailable in 2011 due to unplanned outage. There is currently arbitration underway disputing the closure of Sundance units 1 and 2, and as a result, the return to service of the units depends on the conclusion of the arbitration as well as the finalization of the proposed federal coal regulation.

Despite the loss of this firm generating capacity, Alberta's competitive electricity market framework performed well above the operating safety reserve margin of seven per cent in 2011. Significant annual variations in the margin are normal due to several factors affecting the variations in peak demand as well as the timing and extent of new generation additions and generation decommissioning.

Performance Measure:
3.c Regulatory noncompliance.

Target:
Less than or equal to three per cent of field inspections finding High Risk regulatory noncompliance.

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Regulatory noncompliance (ERCB): Percentage of field inspections finding High Risk regulatory noncompliance	n/a	2.1%	1.7%	1.7%	3.2%

Source: Field Surveillance Inspection System database and Energy Resources Conservation Board Waste Plant Spreadsheet, March 2012.

Discussion of Results
A high risk noncompliance is when a contravention of regulation(s)/requirement(s) is found that the licensee has failed to address and/or that has the potential to cause a significant impact on the public and/or environment, and/or resource conservation. This performance measure helps indicate industry's compliance with regulatory requirements.

During the 2011 calendar year, 13,832 initial inspections were conducted, which was a reduction in initial inspections from 2010. As a result of these inspections, 438 high risk noncompliances were discovered with 155 relating to pipelines.

Year	Number of high risk regulatory noncompliance inspections	Total number of inspections	Percentage of field inspections finding high risk regulatory noncompliance
2011	438	13,832	3.2%
2010	239	14,345	1.7%

The 2011 result was 0.2 per cent above the 2011-12 Business Plan target of 3.0 per cent. The target has been established based on the historical data and is the expected percentage of field inspections finding high risk regulatory noncompliance. The percentage of field inspections finding high risk regulatory noncompliance is driven by both the number of high risk noncompliance inspections and the total number of initial inspections conducted. The reduction in the total number of inspections and the increase in the number of high risk regulatory noncompliance inspections led to a higher percentage of field inspections finding high risk regulatory noncompliance in 2011.

The selection of a sample of operations for inspections is based on both internally defined risk criteria and external factors, such as incidents or complaints. In 2011, the ERCB used a risk-based inspection strategy that focuses on higher value inspection work. Incidents or complaints change the focus of the inspection strategy from year to year as the ERCB expands the inspections to see if the problem is occurring at other sites. The findings of these inspections can have significant impact on the reported result. In 2011, two significant external incidents impacted the selection of operations for inspections, which included a well blowout and a major pipeline break. Operations in these areas were targeted through inspections, which resulted in a greater number of high-risk noncompliance inspections.

ERCB works with industry on the prevention of regulatory noncompliance. To ensure that industry operations staff better understand regulatory requirements, the ERCB continues to educate industry through presentations and operator awareness sessions.

Performance Measure:

3.d Timeliness of the needs and facility applications.

Target:

100 per cent of needs and facility applications determined within 180 days of the application being deemed complete.

Results:

	Year Ending December 31				
	Actual 2007	Actual 2008	Actual 2009	Actual 2010	Current Actual 2011
Timeliness of the needs and facility applications (AUC): Percentage of needs and facility applications determined within 180 days of the application being deemed complete	n/a	100%	92%[1]	100%	98.7%

Source: Alberta Utilities Commission

Notes:

[1] The 2009 actual was revised from 97.8% to 92% to capture only needs and facility applications. The previously recorded results included applications for power plants and other minor facility applications which do not have the 180 day legislative deadline.

Discussion of Results

In accordance with standards established in Alberta law, the AUC when considering an application for an approval, permit or license in respect of a needs identification document, transmission line or part of a transmission line, must make a decision in a timely manner, and if possible, within 180 days after receipt of a complete application.

For 2011, the AUC met this standard 98.7 per cent of the time as 74 of 75 decisions were issued within the 180-day timeline. The one decision that missed the 180-day timeline was related to the Heartland proceeding.

Appendix A: Performance Measure Methodologies

Performance Measure
1.a Combined tax and royalty rates for Alberta natural gas and conventional oil production, compared to similar jurisdictions.

Methodology
Combined royalty and tax rate includes the following:

- Royalty
- Corporate income taxes (Federal and State/Provincial)
- Severance taxes
- Ad Valorem taxes

Comparator jurisdictions for Alberta include British Columbia, Saskatchewan, and the following American jurisdictions: Texas, Louisiana, Wyoming, Colorado, New Mexico, California, Pennsylvania, Oklahoma, and New York.

This measure was chosen as a proxy for government share. The combined royalty and tax rate is a) measurable, b) commonly understood, c) pro-active and timely, d) comparable with other jurisdictions; and, e) consistent with other measures of competitiveness.

This measure should be treated as an "early warning" signal to indicate whether the royalty system requires amendment. If comparison of combined royalty and tax rate is indicating possible fiscal system change, closer attention to the other indicators such as government share, investor rate of return, and net present value would be required. This is more appropriately addressed through special studies (such as the Investment Competitiveness Study) that are future focused and account for the many factors that influence investment decisions.

The combined royalty and tax rates from all 12 comparator jurisdictions are manually calculated from data obtained from reliable third-party external sources, except for the Alberta effective royalty rate which is provided within the ministry. Combined royalty and tax values for each jurisdiction represent a summation of the various fiscal terms with some adjustments made to account for the deductibility of a fiscal term in the calculation of another.

The combined royalty and tax rates for each jurisdiction are then ranked with the lowest three comprising the 1st quartile.

Performance Measures
1.b Revenues from oil, oil sands, gas and land sale bonuses are fully collected.

Methodology
Oil:
Oil royalty volumes owed to the Crown are calculated in the Royalty and Marketing (RAM) system. The volumes owed to the Crown are taken in kind, rather than invoiced. The volumes owed are imported from RAM into the Crude Oil Operation (COO) system. Reconciliation between the volumes calculated by RAM and the volumes actually delivered by industry is performed by the Department and any discrepancies are resolved. The Department collects the revenue for the Crown's volumes marketed either directly, or by the Crown's agents, calculates the net value of all royalty sales, and then remits proceeds to Treasury.

Oil Sands Royalty:
The database, Oil Sands Calculation and Registry system (OSCAR), calculates the monthly amount to be collected based on the monthly Good Faith Estimates (GFE) and the Monthly Royalty Calculations (MRC) spreadsheets. The OSCAR system then sends the revenue data to the Corporate Accounting Revenue System (CARS 2). There are no manual interfaces and the data is reconciled monthly between these two systems. The monthly Conventional Oil Sands Royalty Calculation (PSR) spreadsheets are received and manually processed in Excel.

Oil Sands Tenure and Land Sale Bonuses:
The majority of oil sands and petroleum and natural gas agreements are acquired through a public tender process. Each year Alberta Energy holds an average of 24 public sales, referred to as Public Offerings. The word "sale" is used by tradition, although it is a misnomer, since the Crown always retains title to its minerals. The rights are leased, not sold. The process is an auction, in which companies or individuals submit bids on a parcel of oil sands rights. The highest bidder for each parcel is awarded an oil sands agreement.

Any company or individual who wants to acquire an oil sands or petroleum and natural gas agreement, may submit a posting request electronically, to Alberta Energy, using the web-based Electronic Transfer System (ETS). The requested rights are examined to ensure availability for disposition. The requested lands are referred to the multi-agency Crown Mineral Disposition Review Committee to review for any surface access restrictions. The Committee provides Alberta Energy with full information on the nature of any restriction (for example, seasonal access restrictions for the protection of wildlife habitats). A description of the restriction and contact information, in the form of an addendum, is attached to the parcel of rights when posted in the Public Offering Notice. The Public Offering Notice is published eight weeks in advance of the sale date and is available on Alberta Energy's website. After the sale is completed, the surface restriction on a parcel is recorded in the Notice to Lessee as an attachment to the agreement document upon issuance.

Bids for sale parcels are created and submitted electronically through ETS until 12:00 noon on sale day after which the sale is closed and ETS will not allow a user to submit or withdraw a bid after that time. The total bid request for each parcel must include a $625 agreement issuance fee, the first year annual rental of $3.50 per hectare, and a bonus amount. There is a standard minimum bonus bid of $2.50 per hectare for leases and $1.25 per hectare for permits. The form of payment accepted for winning bids is by electronic funds transfer (EFT). The bidder must have an EFT account before creating and submitting a bid.

The sale results are published on Alberta Energy's website, by 3:30 pm on the same day that the sale is conducted. The results include the parcel number, the name of each successful lessee and the bonus amount paid for each parcel.

Gas:
The Mineral Revenues Information System (MRIS) receives the data to perform monthly royalty calculations and generates a Gas Royalty Invoice on a monthly basis. MRIS passes a file to the CARS 2 (Central Accounting Revenue System) and a Statement of Account is generated on or before the fifteenth of each month in MRIS and issued to industry. Payments are due on the last day of the month. Aged Analysis reports are generated monthly on the CARS 2 system. Collection action occurs on accounts that are past due.

Performance Measure
2.a Albertans' assessment of their energy knowledge.

Methodology
This performance measure was introduced in the 2010-13 Business Plan, with the first results obtained in the fall of 2009. The survey question for the new performance measure was the second of 16 energy-related questions included in the OmniAlberta Survey conducted by Leger Marketing. In April 2011, the survey was restricted to a single question within the OmniAlberta survey, with the rationale being that the statistical reliability would remain the same. There is no way to explain with absolute certainty whether the reduction in the number of questions impacted the 2011 results, or whether there is any correlation between the number of questions asked and Albertans' assessment of their energy knowledge. Moving forward, a reintroduction of additional survey questions will be considered.

Based on the 900 sample size, results are statistically accurate to within +/- 3.3 percentage points, 19 times out of 20.

Leger Marketing included this survey question in the April 2011 OmniAlberta Survey. Nine hundred Albertans aged 18 years or older were interviewed by telephone.

The intent of this performance measure is to survey Albertans every two years with the same question about their knowledge of the energy industry in Alberta, to determine changes since the 2009 benchmark was established.

Performance Measure
2.b Increased fuel gas efficiency reporting

Methodology
A biennial data collection process is undertaken by the ERCB (or other reliable and credible source) in which the top fuel gas users are asked to voluntarily provide information regarding their efforts to better manage fuel gas consumption. The ERCB provides this, and other information associated to fuel gas use, in a report that is publicly released. The following top 20 fuel gas users accounted for 76 per cent of all fuel gas use in Alberta in 2010.

- Canadian Natural Resources Ltd.
- ConocoPhillips
- Husky Oil Operations Ltd.
- Shell Canada
- Devon Canada
- Keyera Energy Ltd.
- EnCana Corp.
- Cenovus
- Apache Canada Ltd.
- Penn West Petroleum Ltd.
- AltaGas Ltd.
- SemCAMS ULC
- Suncor Energy

- Pengrowth Energy Corp.
- Talisman Energy Inc.
- Taqa North Ltd.
- Bonavista Energy Corp.
- Direct Energy Marketing Ltd.
- Perpetual Energy Corp.
- Harvest Operations Corp.

Performance Measure
3.a Transmission losses (%).

Methodology
Every year AESO publishes two data points required for transmission line loss calculations: the Alberta's annual internal load (in Gigawatt Hours) and line losses (in Gigawatt Hours). The calculation for this performance measure is:

$$Transmission\ Losses\ (\%) = \frac{Line\ losses}{Alberta's\ annual\ internal\ load} \times 100\%$$

Performance Measure
3.b Power generation.

Methodology
The intent of the measure is to demonstrate that there is sufficient margin between firm electricity generating capacity and peak demand. The margin for the measure is reported as the percentage megawatt difference between firm generating capacity and peak demand. For this performance measure, all wind and a portion of the hydro capacity, which are not dispatchable on a consistent basis, have been removed from the total installed generating capacity. Peak demand is defined as the highest recorded system demand (in megawatt-hours) in the climatic year (October 1, 2011 through to March 31, 2012) as recorded by AESO.

Methodology for calculating the margin was adjusted for the 2009-2010 Annual Report. Previously, the margin was reported as the difference between total installed generating capacity (net of wind capacity) and peak demand. As a further refinement to the method, a portion of the hydro capacity has also been excluded from the calculation of the firm generating capacity. From an operational point of view, some portion of the hydro capacity may not be available at all times, especially when the peak demand occurs in the winter, due to the limited water storage capacity in the reservoirs. This aspect of the hydro units may put limitations on the amount of generation that can be dispatched from these units on a consistent basis. This adjustment helps further refine the calculation of the margin and makes it more representative of the situations where the full hydro capacity may not be available.

Performance Measure
3.c Regulatory noncompliance.

Methodology
The ERCB established a 3.0 per cent target for this measure based on historical data. The target is the expected percentage of field inspections finding high risk regulatory noncompliance.

The ERCB uses a risk-based inspection strategy that focuses on higher value inspection work. The ERCB selects a sample for inspections based on both internally defined risk criteria and external factors such as incidents or complaints.

ERCB Field Operations staff inspects operations of the upstream oil and gas industry with respect to the drilling, production, and disposition of hydrocarbons and associated wastes. All inspection results are recorded as satisfactory, low risk noncompliant, or high risk noncompliant and are entered into the Field Surveillance Inspection System database, with the exception of inspections of waste plants. These are tracked manually because the waste plants do not have licence numbers. Inspections and investigations are counted for the year that the event was initiated. Field inspections for this measure are initial inspections for drilling, gas facility, oil facility, pipeline, well service, drilling waste, well sites, and waste management operations completed in the calendar year.

Incidents or complaints change the focus of the inspection strategy from year to year as the ERCB expands the inspections to see if the problem is occurring at other sites. The findings of these inspections can have significant impact on the reported result.

Performance Measure
3.d Timeliness of the needs and facility applications.

Methodology
The statutory deadline for issuing decision reports is 180 days, with possible 90-day extensions under certain circumstances. These statutory timelines begin on the date when the AUC deems the application complete. The status of applications is tracked daily.

MINISTRY OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2012

Independent Auditor's Report

Consolidated Statement of Operations

Consolidated Statement of Financial Position

Consolidated Statement of Cash Flows

Notes to Consolidated Financial Statements

Consolidated Schedules to Financial Statements

Independent Auditor's Report

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements
I have audited the accompanying consolidated financial statements of the Ministry of Energy, which comprise the consolidated statement of financial position as at March 31, 2012, and the consolidated statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the consolidated financial statements present fairly in all material respects, the financial position of the Ministry of Energy as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

June 11, 2012
Edmonton, Alberta

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF OPERATIONS

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget	Actual	Actual
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 8,321,000	$ 11,635,880	$ 8,427,931
Freehold Mineral Rights Tax	142,000	128,952	127,465
Industry Levies and Licences	162,419	158,632	146,316
Other Revenue	12,759	20,248	10,317
	8,638,178	11,943,712	8,712,029
Expenses - Directly Incurred (Note 2 and Schedules 2 and 3)			
Ministry Support Services	2,195	2,099	1,841
Resource Development and Management	98,311	103,857	98,784
Biofuel Initiatives	58,000	41,682	38,807
Energy and Utilities Regulation	161,957	178,999	167,313
Utilities Regulation	38,514	34,528	31,601
Carbon Capture and Storage	73,000	21,481	1,013
Orphan Well Abandonment	13,000	13,116	13,094
	444,977	395,762	352,453
Net Operating Results	$ 8,193,201	$ 11,547,950	$ 8,359,576

The accompanying notes and schedules are part of these consolidated financial statements.

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at March 31, 2012

	(in thousands)	
	2012	**2011**
Assets		
Cash and Cash Equivalents (Notes 4 and 8)	$ 428,585	$ 460,075
Accounts Receivable (Note 5)	1,036,899	967,739
Inventory Held for Resale	27,984	17,528
Prepaid Expenses	9,096	10,898
Accrued Pension Asset (Note 3 and 9)	-	7,524
Tangible Capital Assets (Note 6)	101,806	109,534
	$ 1,604,370	$ 1,573,298
Liabilities		
Accounts Payable and Accrued Liabilities	$ 721,267	$ 975,637
Gas Royalty Deposits (Note 7)	406,192	473,420
Unearned Revenue	78,637	75,352
Security Deposits (Note 8)	46,424	43,578
Tenant Incentives	25,694	25,215
Pension Obligations (Note 3 and 9)	4,011	-
	1,282,225	1,593,202
Net Assets (Liabilities):		
Net Assets (Liabilities) at Beginning of Year (Note 3)	(31,453)	149,128
Net Operating Results	11,547,950	8,359,576
Net Financing Provided from (for) General Revenues	(11,194,352)	(8,528,608)
Net Assets (Liabilities) at End of Year	322,145	(19,904)
	$ 1,604,370	$ 1,573,298

Contractual Obligations and Contingent Liablities (Notes 11 and 12)

The accompanying notes and schedules are part of these consolidated financial statements.

MINISTRY OF ENERGY

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended March 31, 2012

	(in thousands) 2012	2011
Operating Transactions		
Net Operating Results	$ 11,547,950	$ 8,359,576
Non-cash items included in Net Operating Results		
Amortization	22,692	24,042
Loss on Disposal of Tangible Capital Assets	6,288	-
	11,576,930	8,383,618
(Increase) Decrease in Accounts Receivable	(69,160)	324,720
Increase in Inventory	(10,456)	(933)
Decrease (Increase) in Prepaid Expenses	1,802	(2,876)
Decrease (Increase) in Accrued Pension Asset	7,524	(774)
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(254,370)	332,131
Increase in Unearned Revenue	3,285	3,938
Increase in Tenant Incentives	(1,411)	(852)
Increase in Pension Obligation	4,011	-
Reduced Rent Benefits	589	4,000
Cash Provided by Operating Transactions	11,258,744	9,042,972
Capital Transactions		
Acquisition of Tangible Capital Assets	(19,951)	(24,290)
Cash Applied to Capital Transactions	(19,951)	(24,290)
Financing Transactions		
Net Financing Provided from (for) General Revenues	(11,194,352)	(8,528,608)
Decrease in Gas Royalty Deposits	(67,228)	(567,133)
Increase in Security Deposits	2,846	5,021
Adjustment to Net Opening Assets	(11,549)	-
Cash Applied to Financing Transactions	(11,270,283)	(9,090,720)
Decrease in Cash and cash equivalents	(31,490)	(72,038)
Cash and cash equivalents at Beginning of Year	460,075	532,113
Cash and cash equivalents at End of Year	$ 428,585	$ 460,075
Non-cash transactions:		
Additions to property and equipment received as a lease incentive	$ 1,301	$ 21,425

The accompanying notes and schedules are part of these consolidated financial statements.

MINISTRY OF ENERGY
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority

The Minister of Energy has been designated as responsible for various Acts by the *Government Organization Act* and its regulations. To fulfill these responsibilities, the Minister administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Energy.

Organization	Authority
Department of Energy (The Department)	*Government Organization Act*
Energy Resources Conservation Board (The ERCB)	*Energy Resources Conservation Act*
Alberta Utilities Commission (The AUC)	*Alberta Utilities Commission Act*
Alberta Petroleum Marketing Commission (The Commission)	*Petroleum Marketing Act and the Natural Gas Marketing Act*
Post-Closure Stewardship Fund	*Mines and Minerals Act*

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards.

Basis of Financial Reporting

Basis of Consolidation

The accounts of the Department, the ERCB, the AUC, Post-Closure Stewardship Fund, and the Commission are consolidated. Revenue and expense transactions, capital and financing transactions, and related asset and liability accounts between entities within the Ministry have been eliminated.

The reporting period of the Commission is December 31. Transactions that have occurred during the period January 1 to March 31 and that significantly affect the consolidation have been recorded.

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for goods or services which have not been provided by year end is recorded as unearned revenue. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements and, for example, report inaccurate or incomplete production data. The Ministry has implemented systems and controls to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Ministry administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Ministry. The Ministry does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Bitumen royalty is determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting (continued)

Revenues (continued)

Freehold mineral rights taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Industry levies and assessments are recognized as revenue in the year receivable.

Expenses

Directly Incurred

Directly incurred expenses are those costs the Ministry has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs which comprise the cost of employer contributions for current service of employees during the year.
- current service costs for the defined benefit pension plans. The ERCB and the AUC have their own defined benefit pension plans. The ERCB's and the AUC's pension expense is actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement. Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 8 years. For the purpose of calculating the expected return, plan assets are valued at fair value. Past service costs arising from plan amendments are deferred and amortized on a straight line basis over the average remaining service period of active employees at the date of amendment.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Incurred by Others

Services contributed by other entities in support of the Ministry operations are disclosed in Schedule 3 and are not reflected in the consolidated statements of operations.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

Basis of Financial Reporting (continued)

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Ministry are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

Inventory consists of conventional and synthetic oil in feeder and trunk pipelines. Inventories are stated at lower of cost or net realizable value.

When physical assets are gifted or sold for a nominal sum to parties external to the government reporting entity, the fair values of these physical assets less any nominal proceeds are recorded as grants in kind.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Liabilities include all financial claims payable by the Ministry at fiscal year end.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, advances, accounts payable and accrued liabilities, security deposits, and gas royalty deposits are estimated to approximate their carrying values because of the short term nature of these instruments.

Net Assets (Liabilities)

Net assets (liabilities) represent the difference between the carrying value of assets held by the Ministry and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The Ministry operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Note 3 Accounting Standard Changes

Alberta Utilities Commission and the Energy Resources Conservation Board adopted the public sector accounting standards on April 1, 2011. As a result of electing a different discount rate for the calculation of the obligations of their Senior Employees Pension Plan, the related balance of accrued pension plan assets were changed into a pension liability. The net cumulative impact on the opening net assets of the ministry as at April 1, 2011 was $11,549. The 2010-11 actuals have not been restated for the change in accounting standards.

Note 4 Cash and cash equivalents

Cash consists of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2012, securities held by the Fund have a time-weighted rate of return of 1.3% per annum (2011: 1.1% per annum). Deposits received by the Ministry as security against leases are included in cash.

Note 5 Accounts Receivable

Accounts receivable are secured by a claim against the mineral leases.

Note 6 Tangible Capital Assets

	Land	Equipment	Computer hardware and software	2012 Total	2011 Total
Estimated Useful Life	Indefinite	3 to 10 years	3 to 20 years		
Historical Cost					
Beginning of Year	$ 282	$ 65,831	$ 199,126	$ 265,239	$ 241,688
Additions	-	6,213	15,039	21,252	45,716
Disposals, Including Write-Downs	-	(493)	(14,877)	(15,370)	(22,165)
	$282	$71,551	$199,288	$271,121	$ 265,239
Accumulated Amortization					
Beginning of Year	$ -	$ 30,033	$ 125,672	$ 155,705	$ 153,828
Amortization Expense	-	4,474	18,218	22,692	23,498
Effect of Disposals	-	(233)	(8,849)	(9,082)	(21,621)
	-	34,274	135,041	169,315	$ 155,705
Net Book Value, March 31, 2012	$282	$37,277	$64,247	$101,806	
Net Book Value, March 31, 2011	$ 282	$ 35,798	$ 73,454		$ 109,534

Equipment includes leasehold improvements, office equipment and furniture, and other equipment.

Historical cost includes work-in-progress at March 31, 2012 totaling $3,387 (2011 - $6,167) comprised of computer hardware and software.

Note 7 Gas Royalty Deposits

The Ministry requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Ministry does not pay interest on the deposits.

Note 8 Security Deposits

The Ministry encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines, and oilfield waste management facilities by holding various forms of security. At March 31, 2012, the Ministry held $46,424 (2011: $43,578) in cash and an additional $137,922 (2011: $84,315) in letters of credit. The security, along with any interest earned, will be returned to the depositor upon meeting specified refund criteria.

Note 9 Employee Future Benefits

The Ministry participates in multi-employer pension plans, Management Employees Pension Plan and Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $18,243 for the year ended March 31, 2012 (2011 - $17,115). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $517,726 (2010 – deficiency $397,087) and the Public Service Pension Plan reported a deficiency of $1,790,383 (2010 deficiency – $2,067,151). At December 31, 2011, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $53,489 (2010 – deficiency $39,559).

The Ministry also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2012, the Bargaining Unit Plan reported an actuarial surplus of $9,136 (2011 – deficiency $4,141) and the Management, Opted Out and Excluded Plan an actuarial surplus of $10,454 (2011 – surplus $7,020). The expense for these two plans is limited to the employer's annual contributions for the year.

In addition, the ERCB and the AUC maintain their own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure all pension plan assets and accrued benefit obligations was March 31, 2012. The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2011. The effective date of the next required funding valuation for SEPP is December 31, 2014. Significant actuarial and economic assumptions used to value accrued benefit obligations and pension costs are as follows:

Note 9 Employee Future Benefits (continued)

a) ERCB

	2012	2011
Accrued benefits obligations		
Discount rate	5.0%	5.8%
Rate of compensation increase	3.8%	3.5%
Benefit costs for the year		
Discount rate	5.5%	6.2%
Expected long-term rate of return on plan assets	5.5%	6.5%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Consolidated Statements of Financial Position are as follows:

	2012	2011
Plan assets at fair value	31,788	$ 31,561
Accrued benefit obligation	37,432	32,902
Plan (deficit) surplus	(5,644)	(1,341)
Unamortized net actuarial loss	2,400	7,962
Accrued pension asset	(3,244)	$ 6,621

The asset allocation of the defined benefit pension plans investments is as follows:

	2012	2011
Equity securities	49.8%	46.7 %
Debt securities	38.5%	41.9 %
Other	11.7%	11.4 %
	100%	100.0%

Additional information about the defined benefit pension plans are as follows:

	2012	2011
ERCB contribution	1,491	$ 1,626
Employees' contribution	411	395
Benefit paid	2,551	1,249
Pension benefit costs	1,502	2,432

Note 9 Employee Future Benefits (continued)

b) AUC

	2012	2011
Accrued benefits obligations		
Discount rate	4.8%	5.8%
Rate of compensation increase (weighted average)	3.75%	3.5%
Benefit costs for the year		
Expected long-term rate of return on plan assets	5.32%	6.1%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Consolidated Statements of Financial Position are as follows:

	2012	2011
Fair value of plan assets	$ 4,925	$ 4,317
Accrued benefit obligation	6,331	4,566
Plan (deficit) surplus	(1,406)	(249)
Unamortized net actuarial (gain) loss	639	1,152
Accrued pension asset	$ (767)	$ 903

Additional information about the defined benefit pension plans is as follows:

	2012	2011
AUC contribution	455	$ 594
Employees' contribution	105	102
Benefit paid	119	80
Pension benefit costs	456	562

The asset allocation of the defined benefit pension plans investments is as follows:

	2012	2011
Equity securities	50.83%	50.8 %
Debt securities	31.22%	32.8 %
Other	17.95%	16.4 %
	100%	100.0%

Note 10 Trust Funds under Administration

The Ministry administers trust funds which are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the funds, and administers them for the purpose of various trusts, they are not included in the Ministry's financial statements.

As at March 31, trust funds under administration were as follows:

	2012	2011
Oil and Gas Conservation Trust	$ 4,062	$ 3,921

Note 11 Commitments

Commitments to outside organizations in respect of contracts entered into before March 31, 2012 amount to $2,006,257 (2011 - $205,459). These commitments will become expenses of the Ministry when terms of the contracts are met.

These amounts include obligations under long-term leases with lease payment requirements in future years of:

	Grant Agreements	Service Contracts	Long-term Leases	Total
2013	243,850	17,447	9,957	271,254
2014	362,042	3,393	10,097	375,532
2015	265,332	2,999	10,633	278,964
2016	339,394	2,973	10,900	353,267
2017	61,000	-	11,192	72,192
Thereafter	529,410	-	125,638	655,048
	$1,801,028	$26,812	$178,417	$2,006,257

Alberta Petroleum Marketing Commission

The Alberta Petroleum Marketing Commission (Commission) has allocated a portion of its anticipated pipeline requirements to transportation agreements expiring in March 2012. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2011 is $2,034 (2010 - $9,813). This commitment will be paid from future oil royalty revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs.

	Total
2013	2,034
	2,034

On February 16, 2011, the Commission announced it had entered into agreements with North West Redwater Partnership (Partnership) to process and market Crown royalty bitumen collected under the Bitumen Royalty in Kind initiative. Development of the bitumen refinery to be constructed by the Partnership is dependent on completion of detailed engineering, final project sanction, and acquisition of necessary financing.

Note 12 Contingent and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and set aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

Note 12 Contingent and Other Liabilities (continued)

(b) Legal Claims

At March 31, 2012, the Ministry is a defendant in five legal claims (2011 – six legal claims). Three of these claims have specified amounts totaling $872,610 and the remaining two claims have no specified amount (2011 – four with specified amounts totaling $1,373,174 and the remaining two claims with no specified amount). Included in the total legal claims are three claims amounting to $572,610 (2011 – all claims specified amounts totaling $1,373,174) in which the Ministry has been jointly named with other entities. One claim totaling $572,500 (2011 – $572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the "BVM Regulation") was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of bitumen mostly through non-arm's length transactions. This price so determined factors into the calculation of royalties due to the Province from oil sands projects.

The Province has "Royalty Amending Agreements" with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology ("BVM") applicable to the project will include "reasonable adjustments" to reflect quality differences between the project's bitumen and the reference price used in the BVM, and also to reflect transportation costs to the reference price location. The Province has designated a modified version of the BVM Regulation as the BVM to be used pursuant to the RAA's.

Non-renewable resource revenue reported in 2012 on the statements of operations includes an estimate of the royalties that the Ministry expects to recover from Suncor and Syncrude.

The Royalty Amending Agreements include provisions which allow Suncor and Syncrude to dispute the Province's compliance with these agreements through issuing notices of non-compliance. During 2010, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not address the reasonable quality and transportation adjustments required by their respective RAAs. The Ministry has forwarded letters advising Suncor and Syncrude to pay their royalty amounts according to their designated BVM's.

If the notices of non-compliance are not resolved, arbitration may result in one instance and court proceedings in the other. Currently, one party has initiated a dispute resolution proceeding. There may be potentially significant adjustments to the Bitumen royalties reported following resolution of these issues.

The Province amended the Oil Sands Royalty Regulation in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional crude bitumen. This royalty was due April 30, 2010. Suncor and Syncrude have indicated that no amounts are owing for this inventory because of their RAAs.

Note 13 Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the consolidated financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $1,303,852 and bitumen royalty recorded as $4,512,990 in these financial statements are subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Ministry by royalty payers. These costs and volumes could vary significantly from that initially reported. The Ministry estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $175,000.

For projects from which synthetic crude oil and bitumen royalties are paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Note 14 Related Party Transactions

The Ministry paid $7,022 (2011 - $6,665) to various other Government of Alberta departments, agencies or funds for grants, supplies and/or services during the fiscal year and received $242 (2011 - $408) as revenue. Included in these services was a payment of $48 (2011 - $48) for the lease of a research facility from Alberta Infrastructure. The remaining term of this lease is 74 years and the future annual payments are $48.

Accommodations, legal, telecommunications, personnel, internal audit services, and certain financial costs were provided to the Ministry by other government organizations at no cost. However, services contributed by other entities in support of the Ministry operations are disclosed in Schedule 3.

Note 15 Royalty Reduction Programs

The Ministry provides eight oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2012, the royalties received under these programs were reduced by $428,748 (2011 Restated - $2,051,693).

Note 16 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $53,745 (2011 - $57,589).

Note 17 Energy Industry Drilling Stimulus Program

Starting April 1, 2009, the Department implemented a drilling stimulus program that impacted the royalties for the year ended March 31, 2011. The first feature was a maximum royalty rate of 5% for the first 50,000 barrels of oil or 500,000 Mcf of gas produced from a well drilled on or after April 1, 2009. The program expired on March 31, 2011.

The second feature was a drilling credit of $200 per metre for wells drilled between April 1, 2009 and March 31, 2011. A sliding scale of 10% to 50%, (based on the oil and gas production level of a company) of 2010/2011 natural gas and conventional oil royalties, caps the amount of the credit a company can receive. The program expired on March 31, 2011.

Natural gas and by-product royalties and conventional oil royalties were reduced by $384,819 and $486,793 in 2011 respectively due to the New Well Royalty Rate feature, while $901,905 was reduced in 2011 due to the drilling credit feature. These programs expired on March 31, 2011.

Note 18 Comparative Figures

Certain 2011 figures have been reclassified to conform to the 2012 presentation.

Note 19 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer of the Ministry.

MINISTRY OF ENERGY **Schedule 1**

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Revenues

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget	Actual	Actual
Non-Renewable Resource Revenue			
Bitumen Royalty (Note 12c)	$ 4,123,000	$ 4,512,990	$ 3,723,412
Crude Oil Royalty	1,925,000	2,283,711	2,236,290
Natural Gas and By-Products Royalty	1,022,000	1,303,852	1,415,871
Bonuses and Sales of Crown Leases	1,068,000	3,312,331	2,634,503
Rentals and Fees	141,000	168,775	160,864
Coal Royalty	42,000	29,089	30,508
Energy Industry Drilling Stimulus Program (Note 17)	-	25,132	(1,773,517)
	8,321,000	11,635,880	8,427,931
Freehold Mineral Rights Tax	142,000	128,952	127,465
Industry Levies and Licenses	162,419	158,632	146,316
Other Revenue			
Other	9,859	19,002	9,235
Interest	2,900	1,246	1,082
	12,759	20,248	10,317
Total Revenue	$ 8,638,178	$ 11,943,712	$ 8,712,029

MINISTRY OF ENERGY **Schedule 2**

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Expenses - Directly Incurred Detailed by Object

Year ended March 31, 2012

	(in thousands)		
	2012		2011
	Budget	Actual	Actual
Salaries, Wages and Employee Benefits	$ 200,547	$ 205,680	$ 193,546
Supplies and Services	79,270	80,218	92,465
Grants	131,500	68,163	29,725
Amortization of Tangible Capital Assets	21,088	22,692	24,042
Well Abandonment	13,000	13,116	13,094
Financial Transactions and Other	120	6,417	116
Total Expenses before Recoveries	445,525	396,286	352,988
Less Recovery from Support Service Arrangements with Related Parties (a)	(548)	(524)	(535)
Total Expenses	$ 444,977	$ 395,762	$ 352,453

(a) The Ministry provides financial services to the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development. Costs incurred by the Ministry for these services are recovered from the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development.

MINISTRY OF ENERGY

Schedule 3

CONSOLIDATED SCHEDULES TO FINANCIAL STATEMENTS

Allocated Costs

Year ended March 31, 2012

(in thousands)

	2012								2011
		Expenses Incurred by Others							
Program	Expenses [1]	Accommodation Costs [2]	Transportation Costs	Service Alberta	GOA Learning Centre	Legal Services	Internal Audit Services	Total Expenses	Total Expenses
Ministry Support Services	$ 2,099	$ 132	$ -	$ -	$ -	$ 15	$ -	$ 2,246	$ 2,056
Resource Development and Management	103,857	5,910	124	5,409	29	4,464	99	119,892	116,176
Biofuel Initiatives	41,682	41	-	-	-	-	-	41,723	38,807
Energy and Utilities Regulation	178,999	-	-	-	-	-	-	178,999	167,313
Utilities Regulation	34,528	-	-	-	-	-	-	34,528	31,601
Carbon Capture and Storage	21,481	82	-	-	-	-	-	21,563	1,013
Orphan Well Abandonment	13,116	-	-	-	-	-	-	13,116	13,094
	$ 395,762	$ 6,165	$ 124	$ 5,409	$ 29	$ 4,479	$ 99	$ 412,067	$ 370,060

(1) Expenses - Directly Incurred as per Statement of Operations, excluding valuation adjustments.

(2) Costs shown for Accommodation are allocated by budgeted Full-Time Equivalent Employment.

DEPARTMENT OF ENERGY

FINANCIAL STATEMENTS
For the year ended March 31, 2012

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Statement of Cash Flows

Notes to the Financial Statements

Schedules to Financial Statements

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Minister of Energy

Report on the Financial Statements
I have audited the accompanying financial statements of the Department of Energy, which comprise the statement of financial position as at March 31, 2012, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Energy as at March 31, 2012, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

June 11, 2012
Edmonton, Alberta

DEPARTMENT OF ENERGY

STATEMENT OF OPERATIONS

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget (Schedule 3)	Actual	Actual
Revenues (Schedule 1)			
Non-Renewable Resource Revenue	$ 8,321,000	$ 11,635,880	$ 8,427,931
Freehold Mineral Rights Tax	142,000	128,952	127,465
Other Revenue	500	11,285	1,549
	8,463,500	11,776,117	8,556,945
Expenses - Directly Incurred (Note 2 and Schedule 6) (Schedules 2 and 3)			
Ministry Support Services	2,195	2,099	1,841
Resource Development and Management	98,311	110,064	98,784
Biofuel Initiatives	58,000	41,682	38,807
Carbon Capture and Storage	73,000	21,481	1,013
Energy Regulation	46,993	46,993	56,493
	278,499	222,319	196,938
Net Operating Results	$ 8,185,001	$ 11,553,798	$ 8,360,007

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY

STATEMENT OF FINANCIAL POSITION

As at March 31, 2012

	(in thousands) 2012	2011
Assets		
Cash and Cash Equivalents	$ 318,787	$ 356,950
Accounts Receivable (Note 3)	1,042,264	964,750
Prepaid Expenses	-	1,937
Tangible Capital Assets (Note 4)	37,359	38,068
	$ 1,398,410	$ 1,361,705
Liabilities		
Accounts Payable and Accrued Liabilities (Note 5)	$ 654,103	$ 912,995
Gas Royalty Deposits (Note 6)	406,192	473,420
Unearned Revenue	77,114	73,735
	1,137,409	1,460,150
Net Assets (Liabilities):		
Net (Liabilities) Assets at Beginning of Year	(98,445)	70,156
Net Operating Results	11,553,798	8,360,007
Net Financing Provided for General Revenues	(11,194,352)	(8,528,608)
Net Assets (Liabilities) at End of Year	261,001	(98,445)
	$ 1,398,410	$ 1,361,705

Contractual Obligations and Contingent Liabilities (Notes 7 and 9)

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY

STATEMENT OF CASH FLOWS

Year ended March 31, 2012

	(in thousands) 2012	2011
Operating Transactions		
Net Operating Results	$ 11,553,798	$ 8,360,007
Non-cash items included in Net Operating Results		
Amortization	7,561	6,228
	11,561,359	8,366,235
(Increase) Decrease in Accounts Receivable	(77,514)	336,533
Decrease (Increase) in Prepaid Expenses	1,937	(33)
(Decrease) Increase in Accounts Payable and Accrued Liabilities	(258,892)	319,678
Increase in Unearned Revenue	3,379	3,919
Cash Provided by Operating Transactions	11,230,269	9,026,332
Capital Transactions		
Acquisition of Tangible Capital Assets	(6,852)	(10,326)
Cash Applied to Capital Transactions	(6,852)	(10,326)
Financing Transactions		
Net Financing Provided for General Revenues	(11,194,352)	(8,528,608)
Decrease in Gas Royalty Deposits	(67,228)	(567,133)
Cash Applied to Financing Transactions	(11,261,580)	(9,095,741)
Decrease in Cash and Cash Equivalents	(38,163)	(79,735)
Cash and Cash Equivalents at Beginning of Year	356,950	436,685
Cash and Cash Equivalents at End of Year	$ 318,787	$ 356,950

The accompanying notes and schedules are part of these financial statements.

DEPARTMENT OF ENERGY
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority

The Department of Energy operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

Note 2 Summary of Significant Accounting Policies and Reporting Practices

These financial statements are prepared in accordance with Canadian public sector accounting standards.

(a) Reporting Entity

The reporting entity is the Department of Energy, which is part of the Ministry of Energy and for which the Minister of Energy is accountable. Other entities reporting to the Minister are the Alberta Petroleum Marketing Commission, the Energy Resources Conservation Board and the Alberta Utilities Commission. The activities of these organizations are not included in these financial statements. The Ministry Annual Report provides a more comprehensive accounting of the financial position and results of the Ministry's operations for which the Minister is accountable.

All departments of the Government of Alberta operate within the General Revenue Fund (the Fund). The Fund is administered by the Minister of Finance. All cash receipts of departments are deposited into the Fund and all cash disbursements made by departments are paid from the Fund. Net Financing Provided from (for) General Revenues is the difference between all cash receipts and all cash disbursements made.

(b) Basis of Financial Reporting

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as unearned revenue. The provincial royalty system is predicated on self-reporting where the petroleum and natural gas industry is expected to understand the relevant energy legislation (statutes and regulations) and comply with them. This has an impact on the completeness of revenue when the petroleum and natural gas industry do not fully meet the legislative requirements and, for example, report inaccurate or incomplete production data. The Department has implemented systems and controls to detect and correct situations where the petroleum and natural gas industry has not complied with the various Acts and Regulations the Department administers. These systems and controls, based on areas of highest risk, include performing audits of the petroleum and natural gas industry records where determined necessary by the Department. The Department does not estimate the effect of misreported revenue.

Crude oil and natural gas royalties are determined based on monthly production. Revenue is recognized when the resource is produced by the mineral rights holders.

Bitumen royalty is determined based on revenues from production sold by projects less the costs of that production and the costs of selling the Crown's royalty share. Royalty revenue is recognized when the resource is produced by the mineral rights holders.

Freehold mineral rights taxes are determined at the end of a calendar year based on production and costs of production incurred in the calendar year. Revenue is recognized on a prorated basis, by month, of the estimated calendar year taxes and royalty that will be due to the Crown.

Revenue from bonuses and sales of Crown leases is recognized when the Crown leases are sold. Rentals and fees revenue is recognized over the term of the leases.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Expenses

Directly Incurred

Directly incurred expenses are those costs the Department has primary responsibility and accountability for, as reflected in the Government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- amortization of tangible capital assets.
- pension costs, which are the cost of employer contributions for current service of employees during the year.
- valuation adjustments which include changes in the valuation allowances used to reflect financial assets at their net recoverable or other appropriate value. Valuation adjustments also represent the change in management's estimate of future payments arising from obligations relating to vacation pay.

Grants are recognized as expenses when authorized and eligibility criteria, if any, are met.

Incurred by Others

Services contributed by other entities in support of the Department operations are not recognized and are disclosed in Schedule 5 and allocated to programs in Schedule 6.

Assets
Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the Department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Assets acquired by right are not included. Tangible capital assets of the Department are recorded at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250 and the threshold for major systems enhancements is $100. The threshold for all other tangible capital assets is $5.

Liabilities
Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Net Assets/Net Liabilities
Net assets/net liabilities represents the difference between the carrying value of assets held by the Department and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The department operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Note 2 Summary of Significant Accounting Policies and Reporting Practices (continued)

(b) Basis of Financial Reporting (continued)

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts receivable, accounts payable and accrued liabilities, and gas royalty deposits are estimated to approximate their carrying values because of the short-term nature of these instruments.

Measurement Uncertainty

Measurement uncertainty exists when there is a significant variance between the amount recognized in the financial statements and another reasonably possible amount. Natural gas and by-products revenue recorded as $1,303,852 and bitumen royalty recorded as $4,512,990 in these financial statements are subject to measurement uncertainty.

Natural gas and by-products revenue is calculated based on allowable costs incurred by the royalty payers and production volumes that are reported to the Department by royalty payers. These costs and volumes could vary significantly from that initially reported. The Department estimates what the costs, volumes and royalty rates for the fiscal year should be based on statistical analysis of industry data. Based on historical data, natural gas and by-products revenue could change by $175,000.

For projects from which bitumen royalty is paid and the project has reached payout, the royalty rate used to determine the royalties is based on the average price of West Texas Intermediate crude oil in Canadian dollars for the calendar year. Royalty rates will start at 25% of net profits when oil is priced at fifty five dollars per barrel or less, and increase to a maximum of 40% of net profits when oil is priced at one hundred and twenty dollars or more. Payout is defined at the first date at which the cumulative revenue of a project first equals the cumulative cost of the project.

Note 3 Accounts Receivable

Accounts receivable are secured by a claim against the mineral leases.

Note 4 Tangible Capital Assets

	Equipment	Computer hardware and software	2012 Total	2011 Total
Estimated Useful Life	3 to 10 years	10 years		
Historical Cost				
Beginning of Year	$ 16,130	$ 85,856	$ 101,986	$ 108,554
Additions	4,318	2,534	6,852	10,326
Disposals	(20)	-	(20)	(16,893)
	$ 20,428	$ 88,390	$ 108,818	$ 101,987
Accumulated Amortization				
Beginning of Year	$ 11,474	$ 52,444	$ 63,918	$ 74,584
Amortization Expense	1,674	5,887	7,561	6,228
Disposals	(20)	-	(20)	(16,893)
	$13,128	$58,331	$71,459	$ 63,919
Net Book Value at March 31, 2012	$ 7,300	$30,059	$37,359	
Net Book Value at March 31, 2011	$ 4,656	$ 33,412		$ 38,068

Historical cost includes work-in-progress at March 31, 2012 totaling $2,534 (2011 - $0) for computer software. Equipment with a net book value of $0 (Cost: $20; Accumulated Amortization: $20) with no remaining economic life were disposed during the year. No gain or loss on disposal (2011 - $0).

Note 5 Accounts Payable and Accrued Liabilities

	2012	2011
Trade	$ 45,103	$ 44,403
Energy Industry Drilling Stimulus Program and Overpayments of Royalties	607,450	866,092
Alberta Royalty Tax Credit	1,550	2,500
	$ 654,103	$ 912,995

Note 6 Gas Royalty Deposits

The Department requires that natural gas producers maintain a deposit which in most cases is equal to one-sixth of the prior calendar year's royalties multiplied by the ratio of the long term gas reference price on the date which the recalculation of the gas deposits is determined to the prior calendar year average gas reference price. The Department does not pay interest on the deposits.

Note 7 Contingencies and Other Liabilities

Set out below are details of contingencies resulting from administrative actions and litigation, other than those reported as liabilities.

(a) Land Claims

The government identifies and sets aside specific tracts of land to satisfy land claims made by Indian Bands. The claims related to these lands are under negotiation but are not yet resolved. When these land claims will be resolved is unknown. In the opinion of management, any losses that may result from the eventual settlement of these land claims cannot be determined at this time.

(b) Legal Claims

At March 31, 2012, the Department is a defendant in five legal claims (2011 – six legal claims). Three of these claims have specified amounts totaling $872,610 and the remaining two claims have no specified amount (2011 – four with specified amounts totaling $1,373,174 and the remaining two claims with no specified amount). Included in the total legal claims are three claims amounting to $572,610 (2011 – all claims specified amounts totaling $1,373,174) in which the Department has been jointly named with other entities. One claim totaling $572,500 (2011 – $572,500) is covered by the Alberta Risk Management Fund.

The resulting loss, if any, from these claims cannot be determined.

(c) Bitumen Royalties

On January 1, 2009, the Province implemented the New Royalty Framework. As part of the New Royalty Framework, the Bitumen Valuation Methodology (Ministerial) Regulation (the "BVM Regulation") was enacted. The BVM Regulation establishes a method to determine a deemed price for bitumen for producers who dispose of bitumen mostly through non-arm's length transactions. This price so determined factors into the calculation of royalties due to the Province from oil sands projects.

The Province has "Royalty Amending Agreements" with two oil sands royalty projects, governing royalties through 2015. In each case the Royalty Amending Agreement (RAA) undertakes that the bitumen valuation methodology ("BVM") applicable to the project will include "reasonable adjustments" to reflect quality differences between the project's bitumen and the reference price used in the BVM, and also to reflect transportation costs to the reference price location. The Province has designated a modified version of the BVM Regulation as the BVM to be used pursuant to the RAA's. Non-renewable resource revenue reported in 2012 on the statements of operations includes an estimate of the royalties that the Department expects to recover from Suncor and Syncrude.

The Royalty Amending Agreements include provisions which allow Suncor and Syncrude to dispute the Province's compliance with these agreements through issuing notices of non-compliance. During 2010, Suncor and Syncrude filed non-compliance notices with the Province, alleging that the BVM Regulation does not address the reasonable quality and transportation adjustments required by their respective RAAs. The Department has forwarded letters advising Suncor and Syncrude to pay their royalty amounts according to their designated BVM's.

If the notices of non-compliance are not resolved, arbitration may result in one instance and court proceedings in the other. Currently, one party has initiated a dispute resolution proceeding. There may be potentially significant adjustments to the Bitumen royalties reported following resolution of these issues.

The Province amended the Oil Sands Royalty Regulation in 2009 to include a methodology to determine royalty amounts due to the Province on pre-2009 inventory and pre-2009 transitional crude bitumen. This royalty was due April 30, 2010. Suncor and Syncrude have indicated that no amounts are owing for this inventory because of their RAAs.

Note 8 Energy Industry Drilling Stimulus Program

Starting April 1, 2009, the Department implemented a drilling stimulus program that impacted the royalties for the year ended March 31, 2011. The first feature was a maximum royalty rate of 5% for the first 50,000 barrels of oil or 500,000 Mcf of gas produced from a well drilled on or after April 1, 2009. The program expired on March 31, 2011.

The second feature was a drilling credit of $200 per metre for wells drilled between April 1, 2009 and March 31, 2011. A sliding scale of 10% to 50% (based on the oil and gas production level of a company) of 2010/2011 natural gas and conventional oil royalties, caps the amount of the credit a company can receive. The program expired on March 31, 2011.

Natural gas and by-product royalties and conventional oil royalties were reduced by $384,819 and $486,793 in 2011 respectively due to the New Well Royalty Rate feature, while $901,905 was reduced in 2011 due to the drilling credit feature. These programs expired on March 31, 2011.

Note 9 Contractual Obligations

As at March 31, 2012, the Department had commitments totaling $1,827,840 (2012 - $29,900). These commitments will become expenses of the Department when terms of the contracts are met.

These amounts include obligations under long-term contracts with contract payment requirements in future years of:

	Grant Agreements	Service Contracts	Total
2013	$ 243,850	$ 17,447	$ 261,297
2014	362,042	3,393	365,435
2015	265,332	2,999	268,331
2016	339,394	2,973	342,367
2017	61,000	-	61,000
Thereafter	529,410	-	529,410
	$ 1,801,028	$ 26,812	$ 1,827,840

Note 10 Trust Funds under Administration

The Department administers the Oil and Gas Conservation Trust which is a regulated fund consisting of public money over which the Legislature has no power of appropriation. Because the Province has no equity in the fund and administers the fund for the purpose of various trusts, the fund is not included in the Department's financial statements.

As at March 31, 2012, the funds in the Oil and Gas Conservation Trust was $4,062 (2011 - $3,921).

Note 11 Benefits Plans

The Department participates in the multi-employer pension plans: Management Employees Pension Plan and Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $7,624 for the year ended March 31, 2012 (2011 – $7,032). Departments are not responsible for future funding of the plan deficit other than through contribution increases.

At December 31, 2011, the Management Employees Pension Plan reported a deficiency of $517,726 (2010 – deficiency $397,087) and the Public Service Pension Plan reported a deficiency of $1,790,383 (2010 deficiency – $2,067,151). At December 31, 2011, the Supplementary Retirement Plan for Public Service Managers had a deficiency of $53,489 (2010 – deficiency $39,559).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2012, the Bargaining Unit Plan reported an actuarial surplus of $9,136 (2011 – deficiency $4,141) and the Management, Opted Out and Excluded Plan an actuarial surplus of $10,454 (2011 – surplus $7,020). The expense for these two plans is limited to the employer's annual contributions for the year.

Note 12 Royalty Reduction Programs

The Department provides twelve oil and gas royalty reduction programs. The intent of these programs is to encourage industry to produce from wells which otherwise would not be economically productive. For the year ended March 31, 2012, the royalties received under these programs were reduced by $428,748 (2011 Restated - $2,051,693).

Note 13 Bitumen Conservation

In 2004-05 the Alberta Energy and Utilities (EUB) Board released its Bitumen Conservation Requirements decisions regarding the status of natural gas wells in the Wabiskaw-McMurray region of the Athabasca Oil Sands area. The decisions recommended the shut-in of Wabiskaw-McMurray natural gas totaling about 53.6 billions of cubic feet annually to protect about 25.5 billion barrels of potentially recoverable bitumen. The Natural Gas Royalty Regulations, 2002 was amended to provide a royalty mechanism that would allow the Minister of Energy to calculate a royalty adjustment each month for gas producers affected by the EUB decisions. The Natural Gas Royalty Regulations, 2002 was also amended to provide for the royalty adjustment to be recovered through additional royalty on the shut-in wells when they return to production through amendments to the provisions that deal with the calculation of the royalty share of gas. The amendments provide for an increase over and above the usual royalty rate, and extend to new wells that produce from the shut-in zone. The effect of these adjustments was to reduce natural gas and by-products revenue by $53,745 (2011 - $57,589).

Note 14 Comparative Figures

Certain 2011 figures have been reclassified to conform to the 2012 presentation.

Note 15 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer.

DEPARTMENT OF ENERGY **Schedule 1**

SCHEDULE TO FINANCIAL STATEMENTS

Revenues

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget	Actual	Actual
Non-Renewable Resource Revenue (Note 12)			
Bitumen Royalty (Note 7c)	$ 4,123,000	$ 4,512,990	$ 3,723,412
Bonuses and Sales of Crown Leases	1,068,000	3,312,331	2,634,503
Crude Oil Royalty	1,925,000	2,283,711	2,236,290
Natural Gas and By-Products Royalty (Note 13)	1,022,000	1,303,852	1,415,871
Rentals and Fees	141,000	168,775	160,864
Coal Royalty	42,000	29,089	30,508
Energy Industry Drilling Stimulus Program (Note 8)	-	25,132	(1,773,517)
	8,321,000	11,635,880	8,427,931
Freehold Mineral Rights Tax	142,000	128,952	127,465
Other Revenue	500	11,285	1,549
Total Revenue	$ 8,463,500	$ 11,776,117	$ 8,556,945

DEPARTMENT OF ENERGY **Schedule 2**

SCHEDULE TO FINANCIAL STATEMENTS

Expenses - Directly Incurred Detailed by Object

Year ended March 31, 2012

(in thousands)

	2012		2011
	Budget	Actual	Actual
Grants	$ 178,493	$ 120,156	$ 99,312
Salaries, Wages and Employee Benefits	68,819	69,050	68,127
Supplies and Services	27,027	25,947	23,690
Amortization of Tangible Capital Assets	4,588	7,561	6,228
Financial Transactions and Other	120	129	116
Total Expenses before Recoveries	279,047	222,843	197,473
Less Recovery from Support Service Arrangements with Related Parties [a]	(548)	(524)	(535)
	$ 278,499	$ 222,319	$ 196,938

(a) The Department provides financial services to the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development. Costs incurred by the Department for these services are recovered from the Ministry of Tourism, Parks and Recreation and the Ministry of Sustainable Resource Development.

DEPARTMENT OF ENERGY

Schedule 3

SCHEDULE TO FINANCIAL STATEMENTS

Comparison of Expenses - Directly Incurred Expenses and Capital Investment and Non-Budgetary Disbursements by Element to Authorized Spending

Year ended March 31, 2012

(in thousands)

Expense and Capital Investments	2011-12 Estimates	Amounts Not Required To Be Voted	2011-12 Authorized Spending	2011-12 Actual	Unexpended (Over Expended)
Program 1 - Ministry Support Services					
1.1 Minister's Office	$ 450	$ -	$ 450	$ 451	$ (1)
1.2 Deputy Minister's Office	511	-	511	476	35
1.3 Communications	1,234	-	1,234	1,172	62
	2,195	-	2,195	2,099	96
Program 2 - Resource Development and Management					
2.1 Revenue Collection					
- Expense	53,891	(4,623)	49,268	50,431	(1,163)
- Capital Investment	1,315	-	1,315	5,798	(4,483)
2.2 Resource Development					
- Expense	39,420	-	39,420	42,762	(3,342)
- Capital Investment	-	-	-	1,054	(1,054)
2.3 Conservation and Energy Efficiency Initiatives	-	-	-	-	-
2.4 Support for Well Abandonment and Reclamation	-	-	-	-	-
2.5 Regulatory Enhancement					
- Expense	5,000	-	5,000	9,047	(4,047)
- Capital Investment	5,000	-	5,000	-	5,000
	104,626	(4,623)	100,003	109,092	(9,089)
Program 3 - Biofuel Initiatives					
3.1 Biofuel Initiatives	58,000	-	58,000	41,682	16,318
	58,000	-	58,000	41,682	16,318
Program 4 - Energy Regulation					
4.1 Energy Regulation	46,993	-	46,993	46,993	-
	46,993	-	46,993	46,993	-
Program 5 - Carbon Capture and Storage					
5.1 Carbon Capture and Storage	73,000	(73,000)	-	-	-
	73,000	(73,000)	-	-	-
Total Voted Expense, EIP and Capital Investments	$ 284,814	$ (77,623)	$ 207,191	$ 199,866	$ 7,325
Expense	$ 278,499	$ (77,623)	$ 200,876	$ 193,014	$ 7,862
Capital Investment	6,315	-	6,315	6,852	(537)
	$ 284,814	$ (77,623)	$ 207,191	$ 199,866	$ 7,325

DEPARTMENT OF ENERGY **Schedule 4**

SCHEDULE TO FINANCIAL STATEMENTS

Salary and Benefits Disclosure

Year ended March 31, 2012

	(in thousands)				
	2012				2011
	Base Salary [1]	Other Cash Benefits [2]	Other Non-cash Benefits [3]	Total	Total
Deputy Minister [4]	$ 263	$ 1	$ 77	$ 341	$ 330
Executives					
Chief Assistant Deputy Minister - Clean Energy Integration [5]	68	1	21	90	-
Chief - Oil Sands Strategy and Operations [6]	218	9	63	290	66
Assistant Deputy Minister - Resource Revenue & Operations	180	1	49	230	219
Assistant Deputy Minister - Electricity & Alternative Energy [7]	168	1	46	215	232
Assistant Deputy Minister - Resource Development Policy	180	1	50	231	217
Assistant Deputy Minister - Strategic Services [8]	176	1	48	225	31
Assistant Deputy Minister - Strategic Initiatives	185	1	52	238	232
Assistant Deputy Minister - Regulatory Enhancement Project [9]	180	1	49	230	33
Executive Director - Human Resources	147	1	39	187	179
Assistant Deputy Minister - Corporate Services [10]				-	186
Assistant Deputy Minister - Oil Sands [11]				-	156
Executive Lead - Energy Future [12]				-	162

Prepared in accordance with Treasury Board Directive 12/98 as amended.

Total salary and benefits relating to a position are disclosed.

(1) Base salary includes pensionable base pay.

(2) Other cash benefits include lump sum payments. There were no bonuses paid in 2012.

(3) Other non-cash benefits include government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, car allowances and professional memberships and tuition fees.

(4) Automobile provided, no dollar amount included in other non-cash benefits. This position was held by two people last year.

(5) On November 10, 2011 the Deputy Minister announced the creation of this position. This position commenced on November 21, 2011.

(6) On January 10, 2011, the Deputy Minister announced a revised executive team structure creating this position. This position was held by two people last year.

(7) This position was held by two people last year.

(8) On February 9, 2011, the Deputy Minister announced a revised executive team structure. This position was occupied by an individual in an acting position last year and became permanent in the position in December 2011.

(9) On February 9, 2011, the Deputy Minister announced a revised executive team structure creating this position.

(10) On February 9, 2011 the Deputy Minister announced a revised executive team structure. This position no longer exists.

(11) On January 10, 2011, the Deputy Minister announced a revised executive team structure. This position no longer exists.

(12) On February 9, 2011, the Deputy Minister announced a revised executive team structure. This position no longer exists.

DEPARTMENT OF ENERGY **Schedule 5**

SCHEDULE TO FINANCIAL STATEMENTS

Related Party Transactions

Year ended March 31, 2012
(in thousands)

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The Department had the following transactions with related parties recorded on the Statement of Operations and the Statement of Financial Position at the amount of consideration agreed upon between the related parties:

	Entities in the Ministry		Other Entities	
	2012	2011	2012	2011
Accounts Receivable				
ERCB	$ 4,050	$ 4,050	$ -	$ -
APMC	12,006	5,193	-	-
	$ 16,056	$ 9,243	$ -	$ -
Accounts Payable	$ -	$ -	$ 1,700	$ 15,022
Expenses - Directly Incurred				
Grants	51,993	56,493	2,463	-
Other services	1,207	2,042	3,068	4
	$ 53,200	$ 58,535	$ 5,531	$ 4
Contractual Obligations	$ -	$ -	$ 15	$ -

The above transactions do not include support service arrangement transactions disclosed in Schedule 2.

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are disclosed in Schedule 6.

	Entities in the Ministry		Other Entities	
	2012	2011	2012	2011
Expenses - Incurred by Others				
Accommodation	$ -	$ -	$ 6,165	$ 5,799
Air Transportation	-	-	124	607
Service Alberta	-	-	5,409	4,878
GOA Learning Centre	-	-	29	43
Legal	-	-	4,479	4,125
Audit	-	-	99	36
	$ -	$ -	$ 16,305	$ 15,488

DEPARTMENT OF ENERGY **Schedule 6**

SCHEDULE TO FINANCIAL STATEMENTS

Allocated Costs

Year ended March 31, 2012

(in thousands)

	2012								2011
		Expenses Incurred by Others							
Program	Expenses [1]	Accommodation Costs [2]	Transportation Costs [3]	Service Alberta [4]	GOA Learning Centre [5]	Legal Services [6]	Internal Audit Services [7]	Total Expenses	Total Expenses
Ministry Support Services	$ 2,099	$ 132	$ -	$ -	$ -	$ 15	$ -	$ 2,246	$ 2,063
Resource Development and Management	110,064	5,910	124	5,409	29	4,464	99	126,099	114,050
Biofuel Initiatives	41,682	41	-	-	-	-	-	41,723	38,807
Carbon Capture and Storage	21,481	82	-	-	-	-	-	21,563	1,013
Energy Regulation	46,993	-	-	-	-	-	-	46,993	56,493
	$ 222,319	$ 6,165	$ 124	$ 5,409	$ 29	$ 4,479	$ 99	$ 238,624	$ 212,426

(1) Expenses - Directly Incurred as per Statement of Operations.
(2) Costs shown for Accommodation on Schedule 5, allocated by budgeted Full-Time Equivalent Employment.
(3) Costs shown for Air Transportation Costs on Schedule 5, allocated by estimated costs incurred by each program.
(4) Costs shown for Service Alberta costs on Schedule 5, allocated by estimated costs incurred by each program.
(5) Costs shown for Learning Centre on Schedule 5, allocated by estimated costs incurred by each program.
(6) Costs shown for Legal Services on Schedule 5, allocated by estimated costs incurred by each program.
(7) Costs shown for Audit Services on Schedule 5, allocated by estimated costs incurred by each program.

ENERGY RESOURCES CONSERVATION BOARD

FINANCIAL STATEMENTS
For the year ended March 31, 2012

Independent Auditor's Report

Statements of Operations

Statements of Financial Position

Statements of Cash Flows

Notes to the Financial Statements

Schedules to the Financial Statements

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Members of the Energy Resources Conservation Board

Report on the Financial Statements
I have audited the accompanying financial statements of the Energy Resources Conservation Board, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Energy Resources Conservation Board as at March 31, 2012, March 31 2011 and April 1, 2010 and the results of its operations amid its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

May 10, 2012
Edmonton, Alberta

ENERGY RESOURCES CONSERVATION BOARD

STATEMENTS OF OPERATIONS

Year ended March 31

(in thousands)

	2012		2011
	Estimates (Schedule 3)	Actual	Actual Restated - Note 2
Revenues			
Industry levies and assessments	$ 124,705	$ 124,799	$ 115,009
Provincial grant	46,993	51,993	56,493
Information, services and fees	9,259	8,849	7,457
Investment	2,500	1,002	875
	183,457	186,643	179,834
Expenses			
Energy regulation (Schedule 1)	161,957	178,999	166,523
Orphan abandonment (Note 4)	13,000	13,116	13,094
	174,957	192,115	179,617
Net operating results	$ 8,500	$ (5,472)	$ 217

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD
STATEMENTS OF FINANCIAL POSITION
(in thousands)

	March 31, 2012	March 31, 2011 Restated - Note 2	April 1, 2010 Restated - Note 2
Assets			
Cash and cash equivalents (Note 5)	$ 36,851	$ 37,055	$ 33,777
Security deposits (Note 6)	46,424	43,578	38,557
Accounts receivable	4,252	4,667	4,047
Prepaid expenses and other assets	8,045	7,909	3,537
Tangible capital assets (Note 7)	57,487	63,881	45,991
	$ 153,059	$ 157,090	$ 125,909
Liabilities			
Accounts payable and accrued liabilities	$ 21,161	$ 21,421	$ 18,985
Grant payable to Orphan Well Association	9,259	10,818	11,919
Security deposits (Note 6)	46,424	43,578	38,557
Unearned revenue	1,523	1,617	1,598
Deferred lease incentives (Note 9)	25,524	25,001	428
Pension obligations (Note 8)	3,244	3,259	3,243
	107,135	105,694	74,730
Net Assets			
Net assets at beginning of year	51,396	51,179	44,414
Net operating results	(5,472)	217	6,765
Net assets at end of year	45,924	51,396	51,179
	$ 153,059	$ 157,090	$ 125,909

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD
STATEMENTS OF CASH FLOWS
Year ended March 31
(in thousands)

	2012	2011 Restated - Note 2
Operating transactions		
Net operating results	$ (5,472)	$ 217
Non-cash items included in net operating results		
Amortization of tangible capital assets	13,205	15,405
Loss on disposal and write-down of tangible capital assets	6,233	542
Change in pension obligations	(15)	16
Amortization of deferred lease incentives	(1,367)	(852)
	12,584	15,328
Decrease/(increase) in accounts receivable	415	(620)
(Increase) in prepaid expenses and other assets	(136)	(4,372)
(Decrease)/increase in accounts payable and accrued liabilities	(260)	2,436
(Decrease) in grant payable to Orphan Well Association	(1,559)	(1,101)
(Decrease)/increase in unearned revenue	(94)	19
Reduced rent benefits	589	4,000
	11,539	15,690
Capital transactions		
Acquisition of tangible capital assets	(11,743)	(12,412)
	(11,743)	(12,412)
(Decrease)/ increase in cash and cash equivalents	(204)	3,278
Cash and cash equivalents at beginning of year	37,055	33,777
Cash and cash equivalents at end of year	$ 36,851	$ 37,055
Non-cash transactions:		
Additions to tangible capital assets received as a lease incentive	$ 1,301	$ 21,425

The accompanying notes and schedules are an integral part of these financial statements.

ENERGY RESOURCES CONSERVATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority and purpose

The Energy Resources Conservation Board (ERCB) is an independent and quasi-judicial agency of the Government of Alberta. The ERCB's mission is to ensure that the discovery, development and delivery of Alberta's energy resources take place in a manner that is fair, responsible and in the public interest. The ERCB operates under the *Energy Resources Conservation Act*, RSA 2000, Chapter E-10.

Note 2 Conversion to public sector accounting standards

Effective April 1, 2011, the ERCB has adopted Canadian public sector accounting standards (PSAS). These financial statements are the first financial statements for which the ERCB has applied Canadian PSAS.

The impact of the conversion to Canadian PSAS is disclosed in Note 12.

Note 3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements, including the opening balance sheet as at April 1, 2010 (the transition date) for purposes of the transition to PSAS.

(a) Revenues

All grants provided by Government of Alberta organizations, industry levies and assessments are recognized as revenue in the period receivable.

(b) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

(c) Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of the ERCB are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals.

Tangible capital assets are recorded at historical cost and amortized using the following methods:

Leasehold improvements	Straight line
Furniture and equipment	Straight line
Computer hardware	Straight line
Computer software - purchased	Straight line
Computer software - developed	Declining balance

Work-in-progress, which includes developed computer software, is not amortized until a project is complete.

(d) Liabilities

Liabilities are recorded to the extent that they represent obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in a sacrifice of economic benefits in the future.

(e) Net assets

Net assets represent the difference between the carrying value of assets held by the ERCB and its liabilities.

PSAS requires a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The ERCB operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Note 3 Significant accounting policies (continued)

(f) Valuation of financial assets and liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, grant payable to the Orphan Well Association and security deposits are estimated to approximate their carrying values.

(g) Pension

Accrued benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels and retirement age of employees.

For the purpose of calculating the expected return, plan assets are valued at fair value.

Net accumulated actuarial gain or loss is deferred and amortized over the average remaining service period of the active employees, which is 8 years.

Past service cost arising from plan amendments are accounted for in the period of the plan amendment.

Defined contribution plan accounting is applied to Government of Alberta multi-employer defined benefit pension plans as the ERCB has insufficient information to apply defined benefit plan accounting.

(h) Deferred lease incentives

Deferred lease incentives, consisting of leasehold improvement costs and reduced rent benefits, are amortized on a straight-line basis over the term of the lease.

Note 4 Orphan abandonment

The ERCB has delegated the authority to manage the abandonment and reclamation of wells, facilities and pipelines that are licensed to defunct licensees to the Alberta Oil and Gas Orphan Abandonment and Reclamation Association (Orphan Well Association). The ERCB grants all of its orphan abandonment revenues (levy and application fees) to the Orphan Well Association. During the year ended March 31, 2012, the ERCB collected $12,076 (2011 - $12,274) in levies and $1,040 (2011 - $820) in application fees.

Note 5 Cash and cash equivalents

Cash and cash equivalents consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining maximum security and liquidity of depositors' principal. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2012, securities held by the Fund have a time-weighted return of 1.3% per annum (2011 - 1.1%, 2010 - 1.0% per annum).

Note 6 Security deposits

The ERCB encourages the timely and proper abandonment and reclamation of upstream wells, facilities, pipelines and oilfield waste management facilities by holding various forms of security. At March 31, 2012, the ERCB held $46,424 (2011 - $43,578, 2010 - $38,557) in cash and an additional $137,922 (2011 - $84,315, 2010 - $77,717) in letters of credit. The security, along with any interest earned, will be returned to the depositors upon meeting specified refund criteria.

ENERGY RESOURCES CONSERVATION BOARD
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 7 Tangible capital assets

	2012					2011	2010
	Land	Leasehold improvements	Furniture and equipment	Computer hardware and software	Total	Total	Total
Estimated useful life	Indefinite	Term of the lease	3-20 years	3-5 years			
Historical cost							
Beginning of year	$ 282	$ 33,338	$ 11,095	$ 103,863	$148,578	$120,011	$ 107,296
Additions	-	1,480	372	11,192	13,044	33,837	15,674
Disposals, including write-downs	-		(443)	(14,642)	(15,085)	(5,270)	(2,959)
	282	34,818	11,024	100,413	146,537	148,578	120,011
Accumulated amortization							
Beginning of year	$ -	$ 11,041	$ 6,194	$ 67,462	$ 84,697	74,020	62,227
Amortization expense	-	1,297	979	10,929	13,205	15,405	14,494
Disposals, including write-downs	-	-	(183)	(8,669)	(8,852)	(4,728)	(2,701)
	-	12,338	6,990	69,722	89,050	84,697	74,020
Net book value at March 31, 2012	$ 282	$ 22,480	$ 4,034	$ 30,691	$ 57,487		
Net book value at March 31, 2011	$ 282	$ 22,297	$ 4,901	$ 36,401		$ 63,881	
Net book value at April 1, 2010	$ 282	$ 2,232	$ 6,220	$ 37,257			$ 45,991

Historical cost of computer hardware and software as at March 31, 2012 includes work-in-progress totaling $853 (March 31, 2011 - $5,969, April 1, 2010 - $3,042).

Note 8 Pension

The ERCB participates in the Government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan and Supplementary Retirement Plan for Public Service Managers. For the year ended March 31, 2012, the expense for these pension plans is equal to the contribution of $9,056 (2011 - $8,652).

In addition, the ERCB maintains its own defined benefit Senior Employees Pension Plan (SEPP) and two supplementary pension plans to compensate senior staff who do not participate in the government management pension plans. Retirement benefits are based on each employee's years of service and remuneration.

The effective date of the most recent actuarial funding valuation for SEPP was December 31, 2011. The accrued benefit obligation as at March 31, 2012 is based on the extrapolation of the results of this valuation. The effective date of the next required funding valuation for SEPP is December 31, 2014.

Pension plan assets are valued at market values. During the year ended March 31, 2012 the actual return on plan assets was 2.8% (7.9% in 2011).

Note 8 Pension (continued)

Significant weighted average actuarial and economic assumptions used to value accrued benefit obligations and pension benefit costs are as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Accrued benefit obligations			
Discount rate	5.0%	5.5%	5.4%
Rate of compensation increase	3.8%	3.5%	3.5%
Long-term inflation rate	2.3%	2.5%	2.5%

Pension benefit costs for the year	2012	2011
Discount rate	5.5%	5.4%
Expected rate of return on plan assets	5.5%	5.4%
Rate of compensation increase	3.5%	3.5%

The funded status and amounts recognized in the Statements of Financial Position are as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Fair value of plan assets	$ 31,788	$ 31,561	$ 28,497
Accrued benefit obligations	37,432	33,809	31,740
Plan (deficit)	(5,644)	(2,248)	(3,243)
Unamortized net actuarial loss/ (gain)	2,400	(1,011)	-
Pension obligations	$ (3,244)	$ (3,259)	$ (3,243)

The pension benefit costs for the year include the following components:

	2012	2011
Current service cost	1,565	1,543
Interest cost	1,912	1,773
Expected return on plan assets	(1,840)	(1,674)
Amortization of actuarial gains	(135)	-
	$ 1,502	$ 1,642

Additional information about the defined benefit pension plans is as follows:

	2012	2011
ERCB contribution	$ 1,491	$ 1,626
Employees' contribution	411	395
Benefits paid	2,551	1,249

The asset allocation of the defined benefit pension plans' investments is as follows:

	March 31, 2012	March 31, 2011	April 1, 2010
Equity securities	49.8%	46.7%	46.5%
Debt securities	38.5%	41.9%	41.7%
Other	11.7%	11.4%	11.8%
	100.0%	100.0%	100.0%

Note 9 Deferred lease incentives

During the year ended March 31, 2012, the ERCB entered into a lease agreement for the additional space in its Calgary Head Office with the term of the agreement commencing on April 4, 2011 and terminating on November 30, 2030. This lease agreement provided for lease incentives totaling $1,890, comprised of leasehold improvement costs in the amount of $1,301 and reduced rent benefits in the amount of $589. These amounts are included in deferred lease incentives and are amortized on a straight line basis over the term of the lease.

The following schedule summarizes changes in deferred lease incentives:

	2012			2011
	Leasehold improvement costs	Reduced rent benefits	Total	Total
Balance at beginning of year	$ 21,068	$ 3,933	$ 25,001	$ 428
Additions during the year	1,301	589	1,890	25,425
Amortization	(1,137)	(230)	(1,367)	(852)
Balance at end of year	$ 21,232	$ 4,292	$ 25,524	$ 25,001

Note 10 Contractual obligations

Contractual obligations are obligations of the ERCB to others that will become liabilities in the future when the terms of those contracts or agreements are met.

The ERCB leases office and research storage facilities. The future annual minimum operating lease payments are as follows:

2013	$ 7,301
2014	7,426
2015	7,894
2016	8,157
2017	8,591
2018 - 2086	122,815
	$ 162,184

Note 11 Related party transactions

For the year ended March 31, 2012, the ERCB paid $5,579 (2011 - $5,450) to various other Government of Alberta organizations for supplies and services. Included in these services was a payment of $4,134 (2011 - $4,161) for computing services and a payment of $48 (2011 - $48) for the lease of a research storage facility from Alberta Infrastructure. The remaining term of this lease is seventy four years.

For the year ended March 31, 2012, the ERCB received a grant of $51,993 (2011 - $56,493) and service revenue of $1,574 (2011 - $1,008) from Government of Alberta organizations.

All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

Note 12 First time adoption of PSAS

These financial statements are the first financial statements for which the ERCB has applied PSAS.

The impact of the transition from Canadian generally accepted accounting principles (GAAP) to PSAS on the ERCB's net assets, net operating results, Statements of Financial Position and Statements of Cash Flows is set out in the following tables, the notes that accompany the tables and Schedules 4 and 5. All accounting changes were applied retroactively with restatement of prior periods.

The ERCB elected to apply the PSAS exemption related to retirement benefits and recognized all cumulative actuarial gains and losses directly in net assets as at the transition date.

Reconciliation of net assets

	Notes	March 31, 2011	April 1, 2010
Total net assets under Canadian GAAP		$ 61,276	$ 61,849
Adjustments for differing accounting treatments			
Employee benefits			
Charge unamortized actuarial gains and losses	(a)	(7,204)	(7,204)
Charge unamortized past service costs	(b)	(270)	(270)
Charge for discount rate change	(c)	(2,406)	(3,196)
		(9,880)	(10,670)
Total net assets under PSAS		$ 51,396	$ 51,179

Reconciliation of net operating results

	Notes	Year ended March 31,
Net operating results under Canadian GAAP		$ (573)
Adjustments for differing accounting treatments		
Decrease in pension benefit cost	(a),(b),(c)	790
Net operating results under PSAS		$ 217

Notes to reconciliations:

(a) As noted, the ERCB elected the PSAS exemption to reset all cumulative actuarial gains and losses to zero as at the date of transition and to recognize them directly in net assets.

(b) Under PSAS, past service costs are accounted for in the period of the plan amendments, whereas Canadian GAAP allowed for the recognition of past service costs over the expected average remaining service period of active employees. To reflect this change, the ERCB recorded a transition adjustment to charge unamortized past service costs to net assets.

(c) PSAS provides a policy choice for the discount rate used to determine the accrued benefit obligation. Entities may elect to use the discount rate with reference to either the expected return on plan assets or with reference to the cost of borrowing. The ERCB has elected to apply a discount rate with reference to its expected return on plan assets and recorded the transition adjustment to reflect this change. In the past under Canadian GAAP, the ERCB used the discount rate with reference to the market rate on high-quality corporate bonds.

Note 12 First time adoption of PSAS (continued)

The ERCB's Statement of Financial Position as at the transition date reflects the following reclassifications:

(d) Under Canadian GAAP, accounts are classified into current assets, current liabilities, long-term assets and long-term liabilities. Under PSAS, there is no distinction between current and long-term items. As a result, long-term receivables of $16 (March 31, 2011- $252) were reclassified from other long-term assets to accounts receivable. Long-term prepaid expenses of $531 (March 31, 2011 - $499) were reclassified from other long-term assets to prepaid expenses and other assets. Long-term reduced rent benefits of $0 (March 31, 2011 - $3,733) were reclassified from other long-term assets to prepaid expenses and other assets. Long-term unearned revenue and long-term deferred lease incentives were reclassified to unearned revenue and deferred lease incentives respectively.

(e) Computer software and property and equipment were reclassified to tangible capital assets.

Significant reclassifications in the ERCB's Statement of Cash Flows for the year ended March 31, 2011 include the following :

(f) Pension obligations funded of $10,278 were reclassified from financing transactions to operating transactions.

Note 13 Approval of financial statements

These financial statements were approved by the Board of the ERCB on May 10, 2012.

ENERGY RESOURCES CONSERVATION BOARD
SCHEDULE TO THE FINANCIAL STATEMENTS
Energy Regulation Expenses
Year ended March 31
(in thousands)

Schedule 1

	2012	2011
Personnel	$ 114,688	$ 104,494
Buildings	13,591	11,099
Consulting services	13,326	14,218
Amortization of tangible capital assets	13,205	15,405
Computer services	9,159	9,533
Loss on disposal and write-down of tangible capital assets	6,233	542
Travel and transportation	4,173	3,905
Administrative	2,933	5,878
Abandonment and enforcement	1,022	776
Equipment rent and maintenance	669	673
	$ 178,999	$ 166,523

ENERGY RESOURCES CONSERVATION BOARD **Schedule 2**

SCHEDULE TO THE FINANCIAL STATEMENTS

Salaries and Benefits Disclosure

Year ended March 31

	2012				2011
	Base Salary [a]	Cash Benefits [b]	Non-cash Benefits [c]	Total	Total
Chairman	$ 292,685	$ 55,920	$ 11,039	$ 359,644	$ 363,634
Vice-Chairman	201,376	38,416	15,225	255,017	260,785
Board Member 1	180,728	11,426	51,458	243,612	234,532
Board Member 2 [d]	180,728	11,309	51,571	243,608	46,073
Board Member 3 [e]	180,728	3,000	50,874	234,602	117,902
Board Member 4 [e]	180,728	3,692	48,709	233,129	119,810
Board Member 5	180,728	35,679	8,273	224,680	212,435
Board Member 6	180,728	7,260	10,346	198,334	227,835
Board Member 7 [f]	-	-	-	-	108,073
Board Member 8 [f]	-	-	-	-	93,712

(a) Pensionable base pay.

(b) Payments in lieu of vacation, health, and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employees for professional memberships and tuition fees. Automobiles were provided, but no amount is included in these figures.

(d) Appointment effective December 2, 2010.

(e) Appointments effective September 16, 2010.

(f) Appointments rescinded effective September 16, 2010.

ENERGY RESOURCES CONSERVATION BOARD **Schedule 3**

SCHEDULE TO THE FINANCIAL STATEMENTS

Authorized Budget

Year ended March 31, 2012

(in thousands)

	Plan			
	Estimates[a]	Changes	Authorized Budget	Actual
Revenues				
Industry levies and assessments	$ 124,705	$ -	$ 124,705	$ 124,799
Provincial grant	46,993	5,000	51,993	51,993
Information, services and fees	9,259	-	9,259	8,849
Investment	2,500	-	2,500	1,002
	183,457	5,000	188,457	186,643
Expenses				
Energy regulation	161,957		161,957	178,999
Orphan abandonment	13,000	-	13,000	13,116
	174,957	-	174,957	192,115
Net operating results	8,500	5,000	13,500	(5,472)
Capital				
Capital investment[b]	23,200	5,000	28,200	11,743
Less: Amortization	(14,700)	-	(14,700)	(13,205)
Loss on disposal and write-down of tangible capital assets	-	-	-	(6,233)
Net capital investment	8,500	5,000	13,500	(7,695)
	$ -	$ -	$ -	$ 2,223

(a) Estimates are based on the ERCB Business Plan for the year ended March 31, 2012. The Estimates and Changes have been approved by the Treasury Board of the Government of Alberta as the Authorized Budget.

(b) During the year ended March 31, 2012, the ERCB entered into a lease agreement for the additional space in its Calgary Head Office and received $1,301 in leasehold improvements paid for by the landlord. This amount was capitalized by the ERCB but is not included in the capital investment in the Authorized Budget as it represents a non-cash benefit to the ERCB and does not have an impact on the ERCB's financial performance.

ENERGY RESOURCES CONSERVATION BOARD

Schedule 4

SCHEDULE TO THE FINANCIAL STATEMENTS

Effect of transition to PSAS on the statements of financial position as at April 1, 2010 (date of transition to PSAS)

(in thousands)

Canadian GAAP captions	Canadian GAAP	Reclassifications	PSAS adjustments	Note 12	PSAS	PSAS Captions
Assets						**Assets**
Current						
Cash and cash equivalents	$ 33,777	$ -	$ -		$ 33,777	Cash and cash equivalents
Security deposits	38,557	-	-		38,557	Security deposits
Accounts receivable	4,031	16	-	*(d)*	4,047	Accounts receivable
Prepaid expenses and other assets	3,006	531	-	*(d)*	3,537	Prepaid expenses and other assets
	-	45,991	-	*(e)*	45,991	Tangible capital assets
	79,371				125,909	
Computer software	30,241	(30,241)	-	*(e)*	-	
Property and equipment	15,750	(15,750)	-	*(e)*	-	
Accrued pension asset	7,427	3,243	(10,670)	*(a),(b),(c)*	-	
Other long-term assets	547	(547)	-	*(d)*	-	
	$ 133,336	$ 3,243	$ (10,670)		$ 125,909	
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 18,985	$ -	$ -		$ 18,985	Accounts payable and accrued liabilities
Grant payable to Orphan Well Association	11,919	-	-		11,919	Grant payable to Orphan Well Association
Security deposits	38,557	-	-		38,557	Security deposits
Short-term unearned revenue	435	1,163	-	*(d)*	1,598	Unearned revenue
Short-term deferred lease incentives	428	-	-		428	Deferred lease incentives
	-	3,243	-	*(a),(b),(c)*	3,243	Pension obligations
	70,324				-	
Long-term unearned revenue	1,163	(1,163)	-	*(d)*	-	
Total liabilities	71,487	3,243	-		74,730	
Net Assets						
Net assets at beginning of year	55,084	-	(10,670)	*(a),(b),(c)*	44,414	
Net operating results	6,765	-	-		6,765	
Net assets at end of year	61,849	-	(10,670)		51,179	
	$ 133,336	$ 3,243	$ (10,670)		$ 125,909	

ENERGY RESOURCES CONSERVATION BOARD **Schedule 5**

SCHEDULE TO THE FINANCIAL STATEMENTS

Effect of transition to PSAS on the statements of financial position as at March 31, 2011

(in thousands)

Canadian GAAP captions	Canadian GAAP	Reclassifications	PSAS adjustments	Note 12	PSAS	PSAS Captions
Assets						**Assets**
Current						
Cash and cash equivalents	$ 37,055	$ -	$ -		$ 37,055	Cash and cash equivalents
Security deposits	43,578	-	-		43,578	Security deposits
Accounts receivable	4,415	252	-	*(d)*	4,667	Accounts receivable
Prepaid expenses and other assets	3,677	4,232	-	*(d)*	7,909	Prepaid expenses and other assets
	-	63,881	-	*(c)*	63,881	Tangible capital assets
	88,725				157,090	
Computer software	28,704	(28,704)	-	*(c)*	-	
Property and equipment	35,177	(35,177)	-	*(c)*	-	
Accrued pension asset	6,621	3,259	(9,880)	*(a).(b).(c)*	-	
Other long-term assets	4,484	(4,484)	-	*(d)*	-	
	$ 163,711	$ 3,259	$ (9,880)		$ 157,090	
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 21,421	$ -	$ -		$ 21,421	Accounts payable and accrued liabilities
Grant payable to Orphan Well Association	10,818	-	-		10,818	Grant payable to Orphan Well Association
Security deposits	43,578	-	-		43,578	Security deposits
Short-term unearned revenue	454	1,163	-	*(d)*	1,617	Unearned revenue
Short-term deferred lease incentives	1,271	23,730	-	*(d)*	25,001	Deferred lease incentives
	-	3,259	-	*(a).(b).(c)*	3,259	Pension obligations
	77,542				-	
Long-term unearned revenue	1,163	(1,163)	-	*(d)*	-	
Long-term deferred lease incentives	23,730	(23,730)	-	*(d)*	-	
Total liabilities	102,435	3,259	-		105,694	
Net Assets						
Net assets at beginning of year	61,849	-	(10,670)	*(a).(b).(c)*	51,179	
Net operating results	(573)	-	790	*(a).(b).(c)*	217	
Net assets at end of year	61,276	-	(9,880)		51,396	
	$ 163,711	$ 3,259	$ (9,880)		$ 157,090	

ALBERTA UTILITIES COMMISSION

FINANCIAL STATEMENTS
For the year ended March 31, 2012

Independent Auditor's Report

Statements of Operations

Statements of Financial Position

Statements of Cash Flows

Notes to the Financial Statements

Schedules to the Financial Statements

AUDITOR GENERAL
Alberta

Independent Auditor's Report

To the Members of the Alberta Utilities Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Utilities Commission, which comprise the statements of financial position as at March 31, 2012, March 31, 2011 and April 1, 2010, and the statements of operations and cash flows for the years ended March 31, 2012 and March 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects the financial position of the Commission as at March 31, 2012, March 31 2011 and April 1, 2010 and the results of its operations and its cash flows for the years ended March 31, 2012 and March 31, 2011 in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

May 9, 2012
Edmonton, Alberta

ALBERTA UTILITIES COMMISSION
STATEMENTS OF OPERATIONS
YEAR ENDED MARCH 31
(thousands of dollars)

	2012		2011
	Budget	Actual	Actual
	(Schedule 3)		(Restated - Note 2)
Revenues			
Administration fees	$ 37,714	$ 33,858	$ 31,307
Investment	400	244	207
Professional services	100	75	229
	38,214	34,177	31,743
Expenses			
Utility regulation (Schedule 1)	38,514	34,553	31,549
Operating (deficit) surplus	(300)	(376)	194
Accumulated surplus, beginning of year	15,596	15,596	15,402
Accumulated surplus, end of year	$ 15,296	$ 15,220	$ 15,596

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
STATEMENTS OF FINANCIAL POSITION
As at March 31, 2012, March 31, 2011, and April 1, 2010
(thousands of dollars)

	March 31, 2012	March 31, 2011 (Restated - Note 2)	April 1, 2010 (Transition date - Note 2)
Assets			
Cash and cash equivalents (Note 4)	$ 11,513	$ 11,327	$ 11,806
Accounts receivable	289	852	201
Prepaid expenses	1,051	800	654
Capital assets (Note 5)	6,959	7,584	7,899
	$ 19,812	$ 20,563	$ 20,560
Liabilities			
Accounts payable and accrued liabilities (Note 6)	$ 3,655	$ 3,987	$ 4,308
Accrued pension liability (Note 7)	767	766	850
Deferred lease incentive	170	214	-
Total liabilities	4,592	4,967	5,158
Net Assets			
Accumulated surplus	15,220	15,596	15,402
	$ 19,812	$ 20,563	$ 20,560

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
STATEMENTS OF CASH FLOWS
YEAR ENDED MARCH 31
(thousands of dollars)

	2012	2011 (Restated - Note 2)
Operating transactions		
Operating (deficit) surplus	$ (376)	$ 194
Non-cash items		
Amortization	1,926	1,865
Pension	456	510
loss on disposal of capital assets	55	2
Decrease (increase) in accounts receivable	563	(651)
(Increase) in prepaid expenses	(251)	(146)
Decrease in accounts payable and accrued liabilities	(332)	(321)
	2,041	1,453
Capital transactions		
Investment in capital assets	(1,356)	(1,552)
	(1,356)	(1,552)
Financing transactions		
Pension obligations funded	(455)	(594)
Lease incentive (paid) received	(44)	214
	(499)	(380)
Net cash provided (used)	186	(479)
Cash and cash equivalents, beginning of year	11,327	11,806
Cash and cash equivalents, end of year	$ 11,513	$ 11,327

The accompanying notes and schedules are an integral part of these financial statements.

ALBERTA UTILITIES COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(thousands of dollars)

Note 1 Authority

The Alberta Utilities Commission (AUC) operates under authority of the Alberta Utilities Commission Act, Chapter A-37.2. The AUC also exercises powers and authorities under a number of other statutes. The AUC is an independent, quasi-judicial agency of the government of Alberta that ensures the delivery of Alberta's utility services takes place in a manner that is fair, responsible, and in the public interest. The AUC regulates investor owned electric, natural gas and water utilities, and certain municipally owned electricity utilities to ensure customers receive safe and reliable service at just and reasonable rates. The AUC is responsible for making timely decisions on the need, siting, construction, alteration, operation and decommissioning of natural gas and electricity transmission facilities. The AUC also develops and amends rules that support the orderly operation of the retail natural gas and electricity markets, and adjudicates on market and operational rule contraventions that the Market Surveillance Administrator may bring before the AUC.

Note 2 Conversion to public sector accounting standards

Effective April 1, 2011, the AUC adopted Canadian public sector accounting standards (PSAS). In accordance with PS 2125 – First-time Adoption by Government Organizations, the date of transition to the new standards is April 1, 2010 and the AUC has prepared and presented an opening statement of financial position as at the date of transition to the new standards. This opening statement of financial position is the starting point for the entity's accounting under the new standards.

In accordance with requirements of PS 2125, the accounting policies set out in Note 3 have been consistently applied to all years presented and adjustments resulting from the adoption of the new standards have been applied retrospectively.

The impact of the adoption of the new standards on the AUC's opening statement of financial position and accumulated surplus as at April 1, 2010 and its net income for the year ended March 31, 2011 related to the first time adoption of PSAS are as follows:

Opening statement of financial position and accumulated surplus:

	March 31, 2010	April 1, 2010	Transiton Adjustment
Assets			
Cash and cash equivalents	$ 11,806	$ 11,806	$ -
Account receivable	201	201	-
Prepaid expenses	654	654	-
Capital assets	7,899	7,899	-
Accrued pension asset	871	-	(871)
	$ 21,431	$ 20,560	$ (871)
Liabilities			
Accounts payable and accrued liabilites	$ 4,308	$ 4,308	$ -
Accrued pension liability	-	850	850
	$ 4,308	$ 5,158	$ 850
Net assets			
Cumulative impact of adopting PSAS			(1,721)
Accumulated surplus as previously stated			17,123
Accumulated surplus, restated			$ 15,402

Note 2 Conversion to public sector accounting standards (continued)

Net income

	2011
Net income as previously reported	$ 142
Plus: reduction in pension expense following PSAS calculation	52
Net income, as restated	$ 194

Note 3 Summary of significant accounting policies and reporting practices

Basis of financial reporting

As described in Note 2, these financial statements are prepared in accordance with Canadian PSAS. Significant accounting policies are as follows:

Revenues
All revenues are reported on the accrual basis of accounting. Administration fees are recognized as revenue in the period receivable.

Expenses
Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Contributed services are recorded as expenses at the exchange amounts.

Foreign currency translation
Foreign currency transactions are translated at the exchange rate prevailing at the date of transaction. Monetary liabilities denominated in foreign currencies are translated to Canadian dollars at the exchange rate prevailing at year-end.

Capital assets
Capital assets of the AUC are recorded at historical cost and amortized using the following methods:

Computer software	Declining balance - 30 per cent per year
Furniture and equipment	Straight line - three to 40 years
Computer hardware	Straight line - three to five years
Leasehold improvements	Straight line - lease term

Contributed assets are recorded at their fair value. The threshold for capitalizing all capital assets is $1.5 unless they are included in certain capital asset pools.

Valuation of financial assets and liabilities
The fair values of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short term nature of these instruments. Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Deferred lease incentive
Lease incentive benefits are amortized on a straight line basis over the term of lease as a reduction to rental expense.

Note 3 Summary of significant accounting policies and reporting practices (continued)

Net assets/net liabilities
Net assets/net liabilities represents the difference between the carrying value of assets held by the Commission and its liabilities.

Canadian public sector accounting standards require a "net debt" presentation for the statement of financial position in the summary financial statements of governments. Net debt presentation reports the difference between financial assets and liabilities as "net debt" or "net financial assets" as an indicator of the future revenues required to pay for past transactions and events. The AUC operates within the government reporting entity, and does not finance all its expenditures by independently raising revenues. Accordingly, these financial statements do not report a net debt indicator.

Pension
Accrued pension benefit obligations are actuarially determined using the projected benefit method prorated on length of service and management's best estimate of expected plan investment performance, projected employees' compensation levels, and length of service to the time of retirement.

For the purpose of calculating pension benefit liability and pension expense, the AUC uses the expected future rate of return on plan assets as its discount rate. For the purpose of calculating the expected return, plan assets are valued at market-related values.

Past service costs arising from plan amendments are expensed in the period of the plan amendment. Any actuarial gain or loss is amortized over the average remaining service period of the active employees, which is 7.5 years.

Defined contribution plan accounting is applied to the government of Alberta multi-employer defined benefit pension plans as the AUC has insufficient information to apply defined benefit plan accounting.

Note 4 Cash and cash equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund which is managed by the Province of Alberta to provide interest income at competitive rates while maintaining appropriate security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2012, securities held by the Fund have a time-weighted return of 1.3 per cent per annum (2011: 1.1 per cent).

Note 5 Capital assets

	Leasehold improvement and equipment	Computer hardware and software	2012 Total	2011 Total
Historical cost				
Beginning of year	$ 5,266	$ 9,406	$ 14,672	$ 13,123
Additions	43	1,313	1,356	1,552
Disposals	(30)	(235)	(265)	(3)
	$ 5,279	$ 10,484	$ 15,763	$ 14,672
Accumulated amortization				
Beginning of year	$ 1,323	$ 5,765	$ 7,088	$ 5,224
Amortization expense	524	1,402	1,926	1,865
Disposals	(30)	(180)	(210)	(1)
	$ 1,817	$ 6,987	$ 8,804	$ 7,088
Net book value at March 31, 2012	$ 3,462	$ 3,497	$ 6,959	
Net book value at March 31, 2011	$ 3,943	$ 3,641		$ 7,584

A loss of $55 (2011- $2) for the write down of computer software is reported on Schedule 2.

Note 6 Accounts payable and accrued liabilities

	2012	2011
Trade payable	$ 364	$ 341
Accrued liabilities	2,938	3,310
Vacation liability	353	336
	$ 3,655	$ 3,987

Note 7 Pension

The AUC participates in the government of Alberta's multi-employer pension plans of Management Employees Pension Plan, Public Service Pension Plan, and Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equal to the contribution of $1,563 for the year ended March 31, 2012 (2011: $1,431).

In addition, the AUC is a participating member of the defined benefit pension plans of Senior Employees Pension Plan (SEPP) and two supplementary pension plans. These multi-unit pension plans compensate senior staff who do not participate in the government's management pension plans. Retirement benefits are based on each employee's years of service and remuneration. The date used to measure these pension plan assets and accrued benefit obligations was March 31, 2012. The effective date of the most recent actuarial funding valuation for the plans was December 31, 2011. The effective date of the next required funding valuation for SEPP is December 31, 2014.

Note 7 Pension (continued)

Significant actuarial and economic assumptions used to value accrued benefit obligations are as follows:

	2012	2011 (Restated - Note 2)	2010 April 1
Discount rate (weighted average)	4.82%	5.32%	5.04%
Rate of compensation increase	3.75%	3.50%	3.50%
Rate of inflation	2.25%	2.50%	2.50%

The weighted average actual rate of return on plan assets for the year ended March 2012 was 3.82% (2011: 6.67%). Also, the funded status and amounts recognized in the Statements of Financial Position are as follows:

	2012	2011 (Restated - Note 2)	2010 April 1
Market value of plan assets	$ 4,925	$ 4,318	$ 3,450
Accrued benefit obligations	6,331	4,827	4,300
Plan deficit	(1,406)	(509)	(850)
Unamortized actuarial losses/(gains)	639	(257)	-
Pension liability	$ (767)	$ (766)	$ (850)

Significant actuarial and economic assumptions used to calculate pension benefit costs are as follows:

	2012	2011 (Restated - Note 2)
Discount rate (weighted average)	5.32%	5.04%
Expected rate of return on plan assets	5.32%	5.04%
Rate of compensation increase	3.50%	3.50%

The total pension benefit costs related to these plans include the following components:

	2012	2011 (Restated - Note 2)
Employer current period benefit costs	$ 460	$ 468
Interest cost	279	238
Expected return on plan assets	(248)	(196)
Amortization of net actuarial gain	(35)	-
Pension expense	$ 456	$ 510

Note 7 Pension (continued)

Additional information about the defined benefit pension plans is as follows:

	2012	2011
AUC contribution	$ 455	$ 594
Employees' contribution	105	102
Benefits paid	119	80

The asset allocation of the defined benefit pension plans investments is as follows:

	2012	2011
Equity securities	50.83%	50.86%
Debt securities	31.22%	32.78%
Other	17.95%	16.36%
	100.00%	100.00%

Note 8 Future operating lease commitments

The AUC leases office space with the following future minimum payments:

2013	$ 2,656
2014	2,671
2015	2,739
2016	2,743
2017	2,601
Thereafter	2,823
	$ 16,233

Note 9 Related party transactions

For the year ended March 31, 2012 the AUC received $93 (2011: $191) of services from, and provided $9 (2011: $6) of services to other government of Alberta organizations. All transactions were in the normal course of operations and measured at the amount of consideration agreed to by the related parties.

In the prior fiscal year, the AUC received the benefit of additional services from another government of Alberta organization in kind with an estimated value of $63. These contributed services were included in professional services revenue on the Statements of Operations and as supplies and services on Schedule 1.

Note 10 Approval of financial statements

These financial statements were approved by the Commission on May 14, 2012.

ALBERTA UTILITIES COMMISSION

UTILITY REGULATION EXPENSES BY OBJECT

YEAR ENDED MARCH 31

(thousands of dollars)

Schedule 1

	2012		2011
	Budget	Actual	Actual
			(Restated - Note 2)
Salaries, wages and employee benefits	$ 23,200	$ 21,942	$ 20,083
Supplies and services	13,514	10,630	9,599
Amortization of capital assets	1,800	1,926	1,865
Loss on disposal of capital assets	-	55	2
	$ 38,514	$ 34,553	$ 31,549

ALBERTA UTILITIES COMMISSION
SALARIES AND BENEFITS DISCLOSURE
YEAR ENDED MARCH 31
(thousands of dollars)

Schedule 2

	2012				2011
	Base Salary [a]	Other Cash Benefits [b]	Other Non-cash Benefits [c]	Total	Total
Chair	$ 320	$ 51	$ 95	$ 466	$ 415
Vice-Chair	201	22	65	288	252
Commission Member 1	181	12	51	244	225
Commission Member 2	181	52	6	239	231
Commission Member 3	181	40	14	235	220
Commission Member 4 [d]	181	7	47	235	96
Commission Member 5	181	35	14	230	230
Commission Member 6 [e]	181	39	9	229	160
Commission Member 7	181	34	10	225	219

(a) Includes pensionable base pay.

(b) Includes payments in lieu of vacation, health and pension benefits.

(c) Employer's contributions to all employee benefits including Employment Insurance, Canada Pension Plan, Alberta pension plans, supplementary retirement plans and health benefits or payments made on behalf of the employee for professional memberships, and tuition fees. Automobiles were provided but no amount is included in these figures.

(d) Position was vacant from May 14, 2010 to January 4, 2011.

(e) Position was vacant from September 16, 2010 to February 1, 2011.

ALBERTA UTILITIES COMMISSION
AUTHORIZED BUDGET
YEAR ENDED MARCH 31, 2012
(thousands of dollars)

Schedule 3

	Plan			
	Budget (Estimate)	Authorized Changes	Authorized Budget	Actual
Revenues				
Administration fees	$ 37,714	$ -	$ 37,714	$ 33,858
Investment	400	-	400	244
Professional services	100	-	100	75
	38,214	-	38,214	34,177
Expenses				
Utility regulation	38,514	-	38,514	34,553
Net capital investment				
Capital investment	1,500	-	1,500	1,356
Less:				
Amortization	(1,800)	-	(1,800)	(1,926)
Loss on disposal of capital assets	-	-	-	(55)
	(300)	-	(300)	(625)
	$ -	$ -	$ -	$ 249

Note:
The Budget is based on the AUC Business Plan for the year ended March 31, 2012. The Budget and Authorized Changes have been approved by the Government of Alberta.

ALBERTA PETROLEUM MARKETING COMMISSION

FINANCIAL STATEMENTS
For the year ended December 31, 2011

Independent Auditor's Report

Statement of Revenue and Expense

Statement of Financial Position

Statement of Cash Flow

Notes to the Financial Statements

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Members of the Alberta Petroleum Marketing Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Petroleum Marketing Commission which comprise the statement of financial position as at December 31, 2011 and the statements of revenue and expense and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Petroleum Marketing Commission as at December 31, 2011, and the results of its operations and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

May 10, 2012
Edmonton, Alberta

Alberta Petroleum Marketing Commission
Statement of Revenue and Expense
Year Ended December 31

	(in thousands) 2011	2010
Revenue (Note 1)		
Crude oil sales	$ 2,302,130	$ 1,958,300
Interest earned	197	140
Penalties collected	353	678
Fees on marketing	238	33
Other	-	7
	2,302,918	1,959,158
Expense (Note 1)		
Crude oil purchases (Note 2c)	212,120	156,177
Transportation	28,208	29,415
Marketing fees	2,599	2,539
Take or pay charges and other costs	933	673
	243,860	188,804
Net operating results before transfer	2,059,058	1,770,354
Amount to be transferred to the Department of Energy (Note 5)	(2,059,058)	(1,770,354)
Excess of revenue over expense	$ -	$ -

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statement of Financial Position
As At December 31

	(in thousands) 2011	2010
Assets (Note 1)		
Cash and short-term investments (Note 3)	$ 14,852	$ 15,112
Accounts receivable	219,668	172,746
Inventory	29,798	14,497
	$ 264,318	$ 202,355
Liabilities (Note 1)		
Accounts payable (Note 4)	$ 59,514	$ 37,108
Liability to the Department of Energy for inventory held	29,798	14,497
Due to the Department of Energy (Note 5)	175,006	150,750
	264,318	202,355
Net Assets (Note 1)	-	-
	$ 264,318	$ 202,355

The accompanying notes are part of these financial statements.

Alberta Petroleum Marketing Commission
Statement of Cash Flow
Year Ended December 31

	(in thousands) 2011	2010
Operating transactions		
Excess of revenue over expense	$ -	$ -
Change in non-cash working capital		
(Increase) decrease in Accounts receivable	(46,922)	1,738
(Increase) decrease in Inventory	(15,301)	6,740
Increase (decrease) in Accounts payable	22,406	(1,853)
Increase (decrease) in Liability to the Department of Energy for inventory held	15,301	(6,740)
Increase in Due to the Department of Energy	24,256	792
Cash provided by operating transactions and		
(Decrease) increase in cash and short term investments	(260)	677
Cash and short term investments at beginning of year	15,112	14,435
Cash and short term investments at end of year	$ 14,852	$ 15,112

The accompanying notes are part of these financial statements.

ALBERTA PETROLEUM MARKETING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 1 Authority

The Alberta Petroleum Marketing Commission (the "Commission") operates under the authority of the *Petroleum Marketing Act*, Chapter P-10, *Revised Statutes of Alberta 2000*, and the *Natural Gas Marketing Act*, Chapter N-1, *Revised Statutes of Alberta 2000*. This legislation designates the Commission as agent of the Province of Alberta (as represented by the Department of Energy) to accept delivery of and market the Province's royalty share of crude oil. This is achieved through the Commission receiving crude oil in kind from producers on behalf of the Department of Energy and transferring the proceeds received from the sale of the crude oil back to the Department. These financial statements disclose the transactions the Commission incurs while acting as agent on behalf of the Department.

Note 2 Significant Accounting Policies

These financial statements are prepared primarily in accordance with Canadian generally accepted accounting principles for the public sector as recommended by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants. The PSAB financial statements presentation standard for government summary financial statements has been modified to more appropriately reflect the nature of the Commission.

The precise determination of many assets and liabilities is dependent upon future events. Accordingly, the preparation of financial statements for a reporting period necessarily involves the use of estimates and approximations which have been made using careful judgment. Actual results could differ from those estimates. These financial statements have, in the Commission's opinion, been properly prepared within reasonable limits of materiality and within the framework of the accounting policies summarized below.

(a) Sales of Crude Oil

Crude oil sales are recognized when crude oil is sold. When producers under-deliver the Department's royalty share, and that under-delivered volume is not subsequently delivered, the Commission deems a sale of crude oil to have occurred. These sales are included in Crude oil sales on the Statements of Revenue and Expense.

(b) Crude Oil Valuation

The Commission has an agency agreement with Nexen Marketing Inc. (Nexen) to market approximately 90% of the royalty share of crude oil. The royalty share is combined with Nexen's supply of like crude. The value of the royalty crude oil is based on a pro-rata share of the net results of Nexen's marketing activities, which may include the sale, purchase, and transportation of crude oil. The Commission currently markets the balance of the royalty share, the results of which are included in Crude oil sales on the Statements of Revenue and Expense.

(c) Inventory

Inventory represents the royalty oil in feeder and trunk pipelines and consists of both purchased oil and royalty share oil. The Commission purchases oil to fulfill pipeline and quality requirements as part of the crude oil marketing process. Purchased inventory is measured at the lower of cost or net realizable value. Cost for purchased inventory is recorded using the first in first out method.

Inventory for the royalty share is recorded at the lower of cost and net realizable value. The cost of the inventory is the carrying value at which inventory is transferred from the Department to the Commission. Net realizable value is the selling price in the ordinary course of business less the costs necessary to make the sale.

(d) Financial Instruments

Currency, credit and price risks are inherent in the sale and purchase of crude oil. Proceeds of sales by Agents are remitted to the Commission in Canadian funds (Agent sales in foreign currencies are converted to Canadian funds at the average monthly rates for the month of sale.) Proceeds of sale received by the Commission in foreign currencies are valued at average monthly rates for the month of sale. Operational oil price hedging may be used to address risk.

Credit risk is the risk of financial loss to the Commission if a customer or party to a financial instrument fails to meet its contractual obligation and arises principally from the Commission's cash and short-term investments and accounts receivable. The maximum amount of credit risk exposure is limited to the carrying value of the balances disclosed in these financial statements.

The Commission manages its exposure to credit risk on cash and short-term investments by placing these financial instruments with the Consolidated Cash Investment Trust Fund (Note 3).

The Commission monitors the credit risk and credit rating of all customers on a regular basis. Aged receivable balances are monitored and an allowance for credit losses is provided in the period in which losses become known.

Interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Commission is subject to interest rate risk arising primarily from fluctuations in rates on its cash balance.

The fair values of the Commission's assets and liabilities approximate their carrying values as at December 31, 2011.

Note 3 Cash and Short-term Investments

Cash and short-term investments consist of a deposit in the Consolidated Cash Investment Trust Fund which is managed by Alberta Finance and Enterprise to provide competitive interest income while maintaining maximum security and liquidity of depositors' capital. The Fund is comprised of high quality short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2011, securities held by the Fund have a rate of return of 1.26% per annum (2010: 0.80%).

Note 4 Accounts Payable

	2011	2010
Transportation and purchases	$ 33,882	$ 14,717
Goods and services tax	25,632	22,391
	$ 59,514	$ 37,108

ALBERTA PETROLEUM MARKETING COMMISSION
NOTES TO THE FINANCIAL STATEMENTS
(in thousands)

Note 5 Due to the Department of Energy

	2011	2010
Due to Department of Energy beginning of year	$ 150,750	$ 149,958
Amount to be transferred to the Department of Energy	2,059,058	1,770,354
Amount remitted to the Department of Energy	(2,034,802)	(1,769,562)
Due to the Department of Energy at end of year	$ 175,006	$ 150,750

Note 6 Commitments

The Commission has entered into transportation agreements for the ensuing one quarter year for a portion of its anticipated pipeline requirements. These agreements obligate the Commission to pay tariff charges for contracted volumes in accordance with contracted rates. The aggregate estimated commitment at December 31, 2011 is $2,034 (2010 - $9,813). Due in 2012 – $2,034. This commitment will be paid from future oil sales revenue. Costs for these pipeline services are expected to be within the range of normal transportation costs. The Commission also has the option of contracting the space to other shippers.

Note 7 Related Party Transactions

The Department incurs costs for salaries on behalf of the Commission. These costs are not included in the Statements of Revenue and Expense and amount to $1,301.

Note 8 Bitumen Processing Agreement

In February 2011 the Commission announced it had entered into agreements with North West Redwater Partnership (Partnership) to process and market Crown royalty bitumen, or equivalent volumes, collected under the Bitumen Royalty in Kind initiative. Development of the bitumen refinery to be constructed by the Partnership is dependent on completion of detailed engineering, final project sanction, and acquisition of necessary financing.

Note 9 Comparative Figures

Certain 2010 figures have been reclassified to conform to 2011 presentation.

Note 10 Approval of Financial Statements

The Members of the Commission have approved these financial statements.

POST-CLOSURE STEWARDSHIP FUND

FINANCIAL STATEMENTS
For the year ended March 31, 2012

Independent Auditor's Report

Statement of Operations

Statement of Financial Position

Notes to the Financial Statements

AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Minister of Energy

Report on the Financial Statements
I have audited the accompanying financial statements of the Post-closure Stewardship Fund, which comprise the statement of financial position as at March 31, 2012 and the statement of operations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Post-closure Stewardship Fund as at March 31, 2012, and the results of its operations for the year then ended in accordance with Canadian public sector accounting standards.

Original signed by Merwan N. Saher, FCA

Auditor General

June 11, 2012
Edmonton, Alberta

POST-CLOSURE STEWARDSHIP FUND

STATEMENT OF OPERATIONS

Year ended March 31, 2012

	2012	2011
Revenue	$ -	$ -
Expenses	-	-
Net Operating Results	$ -	$ -

STATEMENT OF FINANCIAL POSITION

As at March 31, 2012

Assets	$ -	$ -
Liabilities	$ -	$ -
Net Assets	-	-
	$ -	$ -

The accompanying notes are part of these financial statements.

POST-CLOSURE STEWARDSHIP FUND
NOTES TO THE FINANCIAL STATEMENTS

Note 1 Authority and Purpose

The Post-Closure Stewardship Fund operates under the Mines and Minerals Act, chapter M-17.

The fund was established to address any long-term liabilities that may arise from approved projects. Approved projects would inject captured carbon dioxide into subsurface reservoirs for sequestration. No projects have been approved by the Minister of Energy. The fund will be financed by operators of approved projects. The funds would be used for ongoing monitoring costs and any required remediation costs incurred by the Province of Alberta.

The financial statements have nil balances as no projects have been approved by the Minister of Energy for operation.

Note 2 Financial Statement Presentation

The Mines and Minerals Act was amended December 2, 2010 to establish the fund. As a result, only four months of operation was presented in 2011.

A cash flow statement is not provided due to the limited nature of the fund's operations.

Note 3 Approval of Financial Statements

The financial statements were approved by the Deputy Minister and the Senior Financial Officer of the Department of Energy.

Additional Information

For additional copies, contact:

Communications Branch
Alberta Department of Energy
8th Floor, Petroleum Plaza North
9945 – 108 Street
Edmonton, Alberta T5K 2G6

Tel: (780) 427-1083
Fax: (780) 422-0698

Information Services
Energy Resources Conservation Board
Suite 1000, 250 – 5th Street SW
Calgary, Alberta T2P 0R4

Tel: (403) 297-8311
Fax: (403) 297-7040

Customer Information Services
Alberta Utilities Commission
Fifth Avenue Place
4th Floor, 425 – First Street SW
Calgary, Alberta T2P 3L8

Tel: (403) 592-8845
Fax: (403) 592-4486

The Ministry of Energy Annual Report 2011-12 is available on the following website:
www.energy.alberta.ca/Org/Publications/AR2012.pdf

Current information about the organizations that were part of the Ministry of Energy in 2011-12 is available at the following websites:

For the Alberta Department of Energy:
www.energy.alberta.ca
e-mail: library.energy@gov.ab.ca

For the Energy Resources Conservation Board:
www.ercb.ca
e-mail: infoservices@ercb.ca

For the Alberta Utilities Commission:
www.auc.ab.ca
e-mail: info@auc.ab.ca

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